



## ADV Part 2A

March 29, 2017

Kennedy Capital Management, Inc.

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This Brochure provides information about the qualifications and business practices of Kennedy Capital Management, Inc. If you have any questions about the contents of this Brochure, please contact us at 800-859-5462. The information in this Brochure has not been approved or verified by the United States Securities and Exchange Commission (“SEC”) or by any state securities authority.

Kennedy Capital Management, Inc. is a registered investment adviser. Registration with the SEC does not imply any level of skill or training.

Additional information about Kennedy Capital Management, Inc. is also available on the SEC’s website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov). Clients can search this website by using our name or by using a unique identification number known as a CRD number. The CRD number for Kennedy Capital Management, Inc. is 105834.

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## SUMMARY OF MATERIAL CHANGES

### *Annual Update*

On July 28, 2010, the United States Securities and Exchange Commission (“SEC”) published “Amendments to Form ADV” which amends the rules pertaining to the disclosure documents that we provide to clients and prospective clients. This Brochure is prepared according to the SEC’s amended rules.

Pursuant to the amended SEC Rules, within 120 days of the close of our firm’s fiscal year (December 31<sup>st</sup>), we will deliver either:

1. a copy of the current (updated) Brochure that includes or is accompanied by the summary of material changes, or
2. a summary of material changes that includes an offer to provide a copy of the current (updated) Brochure.

We may further provide other ongoing disclosure information about material changes as necessary as well as provide you with a new Brochure as necessary based on changes or new information, at any time, without charge.

You may request a copy of our Brochure by contacting our Client Service Department at 800-859-5462 or [clientservice@kennedycapital.com](mailto:clientservice@kennedycapital.com). Our Brochure is also available on our web site, [www.kennedycapital.com](http://www.kennedycapital.com). If you are obtaining this Brochure electronically, such as from the web site or email, we encourage you to print and retain a copy of this Brochure for future reference.

Additional information about Kennedy Capital Management, Inc. is available via the SEC’s web site, [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov). The SEC’s web site also provides information about any persons affiliated with our firm who are registered, or are required to be registered, as investment adviser representatives of Kennedy Capital Management, Inc. (“KCM”).

### *Material Changes Since the Last Update*

This Brochure was first filed with the SEC on March 30, 2011 with the most recent version filed on March 29, 2016. This Section summarizes specific material changes that have been made to the Brochure since our last annual update dated March 29, 2016.

#### **Advisory Business**

Page 3 – Subsection: *Sub-Advisory Relationships*. Effective November 1, 2016, Convergent Wealth Advisors, LLC was acquired by Pathstone Federal Street LLC (“Pathstone”).

Page 9 – Subsection: *Assets Under Management*. Effective March 1, 2017, assets under management were updated as of December 31, 2016.

## **Fees and Compensation**

Page 9 – Subsection: *Fee Schedules*. Effective October 31, 2016, the Small Cap Opportunistic Value strategy closed and related text was removed from the fee schedule. Effective January 1, 2017, we added an additional strategy. The ESG Impact strategy opened and text was updated to include the strategy in the fee schedule.

## **Types of Clients**

Page 15 – ESG Impact text was added to document the minimum account opening size for a new account.

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

Page 18 – Subsection: *Material Risks Involved*. Text regarding “Impact” investing risk was added to this section.

## **Brokerage Practices**

Page 31 – Subsection: *Aggregating Trading for Multiple Client Accounts*. Under “Bunching”, all references to the Small Cap Opportunistic Value Strategy were deleted from the text.

Page 33 – Subsection: *Aggregating Trading for Multiple Client Accounts*. Under “Unified managed accounts (“UMAs”) for which KCM provides a Mid Cap Value model (“Mid Cap Value UMA Model”) to one or more UMA Sponsors”, the following text was deleted:

“Because of the challenging nature of trading in mid cap stocks, several days or weeks may pass before all trades have been completed for the MCV freely traded accounts and the MCV FDWC Accounts, as well as for any other non-UMA KCM accounts (in any KCM strategy) trading the same names held and/or traded (or to be held and/or traded) in the MCV Model; as a result, generally only when all such trading has been completed, but possibly further subject to participation in the KCM Multi-Strategy UMA Model Rotation, will changes to the MCV UMA Model be communicated to the MCV UMA Sponsors for implementation as part of the trade rotation for MCV UMA Sponsors.”

## **Review of Accounts**

Page 36 – Subsection: *Frequency and Nature of Reviews*. Text was added for clarification that states client(s) support KCM’s efforts to gather information from custodians and other third party record-keepers by electronic means for the client(s) benefit.

## **Client Referrals and Other Compensation**

Page 39 – Subsection: *Compensation to Non-Advisory Personnel for Client Referrals*. Effective November 18, 2016, KCM’s relationship with Bury Street Capital LLC has been terminated. The text describing this previous relationship has been removed from this section.

## TABLE OF CONTENTS

<u>Item</u>	<u>Page</u>
<b>SUMMARY OF MATERIAL CHANGES .....</b>	<b>i</b>
Annual Update .....	i
Material Changes Since the Last Update .....	i
<b>TABLE OF CONTENTS .....</b>	<b>iii</b>
<b>ADVISORY BUSINESS .....</b>	<b>1</b>
Description of the Advisory Firm .....	1
Advisory Services .....	1
Sub-Advisory Relationships .....	2
Wrap Fee Programs .....	4
Model Programs.....	6
Investment Manager Services .....	8
Assets Under Management .....	9
<b>FEES AND COMPENSATION.....</b>	<b>9</b>
Fee Schedules .....	9
Payment of Fees.....	11
Clients Are Responsible for Third Party Fees .....	12
Prepayment of Fees.....	12
Most Favored Nation Clauses .....	12
Outside Compensation for the Sale of Securities to Clients .....	12
<b>PERFORMANCE FEES AND SIDE-BY-SIDE MANAGEMENT.....</b>	<b>13</b>
<b>TYPES OF CLIENTS.....</b>	<b>14</b>
Anti-Money Laundering Policy .....	15
Privacy Notice .....	16
<b>METHODS OF ANALYSIS, INVESTMENT STRATEGIES AND RISK OF LOSS.....</b>	<b>16</b>
Methods of Analysis and Investment Strategies .....	16
Material Risks Involved.....	17
Risks of Specific Securities Utilized.....	19
<b>DISCIPLINARY HISTORY .....</b>	<b>20</b>
<b>OTHER FINANCIAL INDUSTRY ACTIVITIES AND AFFILIATIONS .....</b>	<b>20</b>
Registration as a Broker-Dealer or Broker-Dealer Representative .....	20
Registration as a Futures Commission Merchant, Commodity Pool Operator, or a Commodity Trading Advisor .....	20
Relationships Material to this Advisory Business and Possible Conflicts of Interests .....	20
Selection of Other Advisors or Managers and How This Adviser is Compensated for Those Selections .....	21

Other Information .....	21
<b>CODE OF ETHICS, PARTICIPATION OR INTEREST IN CLIENT TRANSACTIONS AND PERSONAL TRADING .....</b>	<b>21</b>
Code of Ethics.....	21
Recommendations Involving Material Financial Interests.....	22
Investing in the Same Securities as Clients .....	22
Trading Securities At or About the Same Time as Clients .....	23
Intern Program .....	23
<b>BROKERAGE PRACTICES .....</b>	<b>24</b>
Factors Used to Select Broker-Dealers .....	24
Research and Other Soft Dollar Benefits .....	24
Brokerage for Client Referrals.....	27
Directed Brokerage .....	27
Aggregating Trading for Multiple Client Accounts .....	29
Liquidations of Existing Positions Upon Transition to KCM.....	35
How Withdrawals and Small Deposits are Traded for Fiduciary Services Accounts .....	35
<b>REVIEW OF ACCOUNTS .....</b>	<b>36</b>
Frequency and Nature of Reviews .....	36
Factors that Trigger a Non-Periodic Review .....	37
Content and Frequency of Regular Reports Provided to Clients .....	37
<b>CLIENT REFERRALS AND OTHER COMPENSATION.....</b>	<b>38</b>
Economic Benefits Provided by Third Parties for Advice Rendered to Clients .....	38
Compensation to Non-Advisory Personnel for Client Referrals.....	38
<b>CUSTODY.....</b>	<b>39</b>
<b>INVESTMENT DISCRETION .....</b>	<b>40</b>
<b>VOTING CLIENT SECURITIES.....</b>	<b>41</b>
Clients That Provide Proxy Voting Authority to KCM .....	41
Clients That Retain Proxy Voting Authority .....	42
Class Action Lawsuits .....	42
Corporate Action Processing .....	43
<b>FINANCIAL INFORMATION .....</b>	<b>44</b>
Balance Sheet.....	44
Financial Conditions Reasonably Likely to Impair Ability to Meet Contractual Commitments to Clients.....	44
Bankruptcy Petitions in Previous Ten Years .....	44
<b>EXHIBITS.....</b>	<b>45</b>
Exhibit A: Privacy Notice.....	45

## ADVISORY BUSINESS

### *Description of the Advisory Firm*

Established in 1980 by Gerald Kennedy and Richard Sinise, Kennedy Capital Management, Inc. is an independent, employee owned advisory firm registered with the SEC pursuant to Section 203 of the Investment Advisers Act of 1940, as amended (the “Act”). We are located in St. Louis, Missouri and are incorporated under the laws of the State of Missouri as an S corporation.

From 1980 to 1992, we managed accounts for high-net-worth individuals, focusing on small cap stocks. In 1993, a program was initiated to market our philosophy to institutional investors. This program was successful, eventually growing the firm in assets and allowing the company to build the investment team, back office, compliance and trading operations to current levels. Since that time, we have supplemented our small cap strategies to include micro cap, mid cap, SMID (combination of small and mid cap), and all cap products.

Firm co-founder, Gerald Kennedy, passed away in 1999, but Richard Sinise continues to be a part of the firm as Chief Portfolio Manager and Director of Research. As of December 31, 2016, we employed 52 full-time people. Our ownership structure is arranged so that our employees own 100% of the firm’s total shares outstanding.

As used in this Brochure, the words “we”, “our” and “us” or “KCM” refer to Kennedy Capital Management, Inc. The words “you”, “your” and “client” refer to you as either a client or prospective client of Kennedy Capital Management, Inc.

### *Advisory Services*

With limited exceptions, we provide investment management services on a discretionary basis for taxable and tax-exempt institutions, investment companies, pooled investment vehicles, individual clients and additional clients as described in the section titled *Types of Clients*. Sub-advisory services are also provided to investment companies, a number of wrap fee programs, model programs, and to clients of consultants and other investment advisers as described in further detail later in this section. Discretion means that we have permission to make investment decisions for your account without prior consultation with you, the client. Although most services we provide are discretionary, we also provide non-discretionary services to model programs. Please refer to the section titled *Investment Discretion* for additional information regarding discretion.

We do not consider our services to be “financial planning” or any similar term, and we do not provide advice in the selection of other investment advisers. To determine your specific needs and financial goals, we encourage you to consult with your broker and/or financial consultant. Furthermore, as we are not tax advisers, we recommend that you consult your legal, financial, and/or tax adviser regarding your particular circumstances.

We primarily invest client funds in domestic equity securities, including common stocks of micro, small, mid, and large capitalization companies. We may also invest client funds in foreign equity securities. These securities may include stocks traded on a U.S. national exchange and over-the-counter such as the

New York Stock Exchange and the NASDAQ, foreign non-U.S. exchanges or other applicable venues. Additionally, we may invest client funds in other securities such as preferred stock, real estate investment trusts, American depository receipts, American depository shares, exchange-traded funds, corporate bonds, securities convertible to common stock, restricted securities and private placements. When purchasing or selling a security on a foreign exchange, the transaction is generally settled in local currency. Therefore, spot foreign currency transactions will be placed in your account for the purpose of trade settlement. KCM does not make direct investment in currency or in currency forwards. KCM only transacts purchases or sales on a foreign exchange in accounts for which we have been given written permission. Please refer to the section titled *Methods of Analysis, Investment Strategies and Risk of Loss* for a discussion of these securities and any additional types of securities that may be purchased in your account along with a discussion of the associated risks.

Although we retain investment discretion over your account as outlined in the section titled *Investment Discretion*, you have the opportunity to place reasonable restrictions or constraints regarding specific conditions or limitations on the types of investments to be made for your account. For example, you may specify that at the time of purchase the investment in any particular stock or industry should not exceed a specified percentage of the value of the account. All such restrictions or constraints, and any modifications to existing restrictions or constraints, are to be agreed upon in writing. We reserve the right to reject or to terminate an account if we believe the restrictions or constraints imposed are not reasonable or prohibit effective management of the account. You should understand that the account restrictions or constraints may affect the performance of your account, either positively or negatively. Furthermore, accounts with restrictions may result in performance dispersion due to security holdings and cash levels differing from other accounts in the same investment strategy. The portfolio manager works to maintain minimal dispersion among the accounts; therefore, accounts with restrictions may receive an allocation of a similar non-restricted security and/or may contain higher or lower cash levels than other accounts in the same strategy.

### ***Sub-Advisory Relationships***

A sub-advisory relationship is defined as one in which another firm hires an outside firm to provide investment advisory services for their clients. We have been retained to serve as sub-adviser to clients of unaffiliated registered investment advisers. Clients should understand that the unaffiliated registered investment adviser is responsible for analyzing the financial needs of its clients and for also determining the suitability of our services for their client. Clients should understand that when we have been retained to serve as sub-adviser, KCM relies solely on the unaffiliated registered investment adviser to make such determination, as we are generally not provided sufficient information by the investment adviser to perform an assessment of client suitability. Absent specific client guidelines, directed brokerage arrangements, and cash flows, we will manage these accounts similarly to other separately managed client accounts within the same strategy based on the strategy's characteristics and the availability of cash in the individual accounts.

In these sub-advisory relationships, KCM enters into a sub-advisory agreement with the unaffiliated registered investment adviser to provide portfolio management services to the adviser's clients. As part of our sub-advisory agreements with such investment advisers, we do not pay them a fee for referring clients to us. We receive an agreed upon percentage of the fees charged by the investment adviser for the sub-advisory services. The sub-advisory agreement between us and the investment adviser states the



manner and amount that we will be paid and also describes the services we will provide to the investment adviser's clients. Clients of these investment advisers compensate their investment adviser directly and the investment adviser in turn pays us a fee as specified in our sub-advisory agreement with the investment adviser. If our services are terminated, the fees will be pro-rated through the date of termination.

With respect to the assets we manage for clients of these investment advisers that are employee benefit plans covered under Rule 408(b)(2) of the Employee Retirement Income Security Act of 1974, as amended ("ERISA"), KCM provides services as an ERISA "fiduciary" (as defined in Section 3(21) of ERISA) and is a registered investment adviser under the Investment Advisers Act of 1940.

Organizations with which we have established sub-adviser management relationships include, but are not limited to, the following:

**Pathstone Federal Street LLC**

We may provide investment sub-advisory services to clients of Pathstone Federal Street LLC ("Pathstone") as well as individually managed separate account services to Pathstone's clients subject to reasonable restrictions.

We will provide our disclosure statement (ADV Parts 2A and 2B) and Privacy Notice to clients of Pathstone at least 48 hours prior to trading such account.

Annually, we are responsible for providing a copy of our Privacy Notice and for offering or providing a copy of material updates of our disclosure statement (ADV Parts 2A and 2B) to existing Pathstone clients.

We are responsible for voting proxies for the accounts of Pathstone's clients unless otherwise instructed.

Pathstone is solely responsible for taking all appropriate steps to comply with anti-money laundering requirements for its clients.

**Windsor Advisory Group, LLC – SEC File Number 801-61372, CRD Number 122266**

We may provide investment sub-advisory services to clients of Windsor Advisory Group, LLC ("Windsor") as well as individually managed separate account services to Windsor's clients subject to reasonable restrictions.

Windsor is responsible for providing our disclosure statement (ADV Parts 2A and 2B) and Privacy Notice to its clients at least 48 hours prior to notifying us that such client's account is ready to be invested.

Annually, Windsor is responsible for providing to its clients our Privacy Notice and updates to our disclosure statement (ADV Parts 2A and 2B.)

We are responsible for voting proxies for the accounts of Windsor's clients unless otherwise instructed.

**Legato Capital Management, LLC – SEC File Number 801-64653, CRD Number 131704**

We may provide investment sub-advisory services to clients of Legato Capital Management, LLC (“Legato”) as well as individually managed separate account services to Legato’s clients subject to reasonable restrictions.

Legato is responsible for providing our disclosure statement (ADV Parts 2A and 2B) and Privacy Notice to its clients at the time we are selected to provide investment management services to such clients.

Annually, Legato is responsible for providing to its clients our Privacy Notice and updates to our disclosure statement (ADV Parts 2A and 2B.)

We are responsible for voting proxies for the accounts of Legato’s clients unless otherwise instructed.

**HighTower Advisors, LLC – SEC File Number 801-69625, CRD Number 145323**

We may provide investment sub-advisory services to clients of HighTower Advisors, LLC (“HighTower”) as well as individually managed separate account services to HighTower’s clients subject to reasonable restrictions.

HighTower is responsible for providing our disclosure statement (ADV Parts 2A and 2B) and Privacy Notice to each prospective client at least 48 hours prior to such prospective client becoming a client.

Annually, we are responsible for providing a copy of our Privacy Notice and for offering or providing a copy of our disclosure statement (ADV Parts 2A and 2B) and material updates to existing HighTower clients.

We are responsible for voting proxies for the accounts of HighTower’s clients unless otherwise instructed.

***Wrap Fee Programs***

Although we are a sub-adviser to several wrap fee programs through wirehouse consultants, we do not sponsor any wrap account arrangements. A wrap account is where one fee (generally determined as a percentage of assets under management) is charged for investment advisory, trade execution and other services provided to a client. Wrap account arrangements, are commonly referred to as separately managed accounts, directly managed accounts, unified managed accounts, wrap accounts or similarly named arrangements (collectively, “wrap account”). These managed wrap accounts have been created by unaffiliated financial institutions (each a “Sponsor”). Wrap account clients typically enter into an agreement with a Sponsor and the Sponsor enters into a sub-advisory agreement with KCM to provide portfolio management services to the wrap account. Each Sponsor has retained us through a separate advisory agreement.

“Wirehouse consulting accounts” are those referred to us by an investment consultant, financial adviser or broker (“wirehouse consultant”) affiliated with a wirehouse brokerage firm (e.g., Morgan Stanley Smith Barney, LLC). Wirehouse consulting accounts may either be:

- A. arranged such that all fees are bundled under a wrap arrangement (where the client pays one all-inclusive asset-based fee covering custody, transaction costs, the services of the consultant or adviser and our services – “wrap wirehouse accounts”); or
- B. unbundled where these fees are paid separately by the client (“unbundled wirehouse accounts”).

Each Sponsor is responsible for preparing and providing a brochure which contains information about its wrap fee program. Copies of each brochure are available from the Sponsor. Wrap fee program clients are encouraged to review the relevant Sponsor’s brochure for further details.

Clients should understand that the Sponsor is responsible for analyzing the financial needs of each particular wrap account client and for also determining the suitability of our services for their clients. KCM relies solely on the Sponsor to make such determinations, as we are generally not provided with sufficient information by the Sponsor to perform an assessment as to the client’s suitability. Absent specific client guidelines, directed brokerage arrangements, and cash flows, we manage these accounts similarly to other separately managed client accounts within the same strategy based on the strategy’s characteristics and the availability of cash in the individual accounts.

As part of our sub-advisory agreements with the Sponsors, we do not pay them a fee for referring clients to us. We receive an agreed upon percentage of the fees charged by the Sponsor for the sub-advisory services. The sub-advisory agreement between us and the Sponsor states the manner and amount that we will be paid and also describes the services we will provide to the Sponsor’s clients. Clients compensate the Sponsor directly and the Sponsor in turn pays us a fee as specified in our sub-advisory agreement with the Sponsor. If our services are terminated, fees will be pro-rated through the date of termination.

Sponsors with which we participate in wrap account arrangements include the following:

**Robert W. Baird & Co. Incorporated – SEC File Number 801-7571, CRD Number 8158**

We provide discretionary investment sub-advisory services to clients of Robert W. Baird & Co. Incorporated (“Baird”) who select us to manage a separately managed mid cap value account through the PAM Recommended Managers Services program.

Baird is responsible for providing our disclosure statement (ADV Parts 2A and 2B) and Privacy Notice to its prospective clients prior to or at the time of the establishment of a new advisory client relationship.

Annually, we are responsible for providing a copy of our Privacy Notice and for offering or providing a copy or material updates to our disclosure statement (ADV Parts 2A and 2B) to existing Baird clients.

We are responsible for voting proxies for the accounts of Baird’s clients unless otherwise instructed.

**Morgan Stanley Smith Barney LLC – SEC File Number 801-70103, CRD Number 149777**

We provide investment advisory services to clients of Morgan Stanley Smith Barney LLC (“Morgan Stanley Smith Barney”) through two programs: we serve as a sub-manager in the Select Unified Managed Account (“UMA”) program and as a fiduciary manager in the Fiduciary Services program, offered through the legacy Smith Barney Channel. Please see the subsection

titled *Model Programs* for more information regarding the UMA. For the Fiduciary Services program, we provide discretionary investment services by offering individually managed separate account services to clients who select us to manage a mid cap value account.

Morgan Stanley Smith Barney is responsible for providing our disclosure statement (ADV Parts 2A and 2B) and Privacy Notice to its clients whose accounts are to be managed by us either at the time, or before, Morgan Stanley Smith Barney enters into an agreement with such clients.

Annually, we are responsible for providing a copy of our Privacy Notice and for offering or providing a copy and material updates to our disclosure statement (ADV Parts 2A and 2B) to existing Morgan Stanley Smith Barney clients.

We are responsible for voting proxies for the accounts participating in the Fiduciary Services program of Morgan Stanley Smith Barney unless otherwise instructed.

**Brinker Capital, Inc. – SEC File Number 801-30504, CRD Number 111743**

We may provide investment sub-advisory services to clients of Brinker Capital, Inc. (“Brinker”) through its Manager of Managers Program as well as individually managed separate account services to Brinker’s clients subject to reasonable restrictions.

Brinker is responsible for providing to its clients:

- Our disclosure statement (ADV Part 2A) and Supplemental Brochure (ADV Part 2B) to each prospective client initially and as updates are provided to Brinker;
- Our Proxy Voting Policy upon account opening and as updates are provided to Brinker; and
- Our Privacy Notice both upon account opening and annually.

We are responsible for voting proxies for the accounts of Brinker’s clients unless otherwise instructed.

***Model Programs***

Model programs are defined as professionally managed private investment accounts that are rebalanced regularly by a Sponsor generally in accordance with instructions from an outside portfolio manager. KCM has entered into arrangements to provide mid cap value models to unaffiliated registered investment advisers. KCM supplies the Sponsor with a model portfolio and notifies the Sponsor when changes to the model are to be made. The Sponsor may choose whether or not to implement the changes provided by KCM. The placement and execution of security transactions are not made by KCM, nor does KCM assume any fiduciary duties associated with these tasks.

Each Sponsor is responsible for preparing and providing a brochure which contains information about its model program. Copies of each brochure are available from the Sponsor. Clients are encouraged to review the relevant Sponsor’s brochure for further details.

KCM is generally not provided with any individual client information by the Sponsor in order to perform an assessment as to the client’s suitability with the model; therefore, the Sponsor has the actual relationship with the client and the fiduciary duty to the client, including the discretion to make and

implement changes in client accounts. The Sponsor has the sole responsibility for obtaining information from each client regarding the client's investment objectives, financial information, risk tolerance and any reasonable restrictions for determining that the investment portfolio, investment model and investment strategy, provided by KCM to the Sponsor as part of the model program, is initially suitable and continues to be suitable for the client. Additionally, the Sponsor is solely responsible for taking all appropriate steps to comply with anti-money laundering requirements. KCM is not responsible for overseeing the provision of services by a model-based program sponsor.

Clients invested in a model program, typically enter into an agreement with a Sponsor and the Sponsor enters in a sub-advisory agreement with KCM to provide a model to the Sponsor. Each model sponsor has retained us through a separate investment sub-advisory agreement. The sub-advisory agreement between KCM and the Sponsor states the manner and amount that we will be paid. We do not pay the Sponsor a fee for referring clients to us. In the model-based program, the Sponsor pays KCM a fee for the amount of assets managed within the program. Clients compensate the Sponsor directly and the Sponsor in turn pays us a fee as specified in our sub-advisory agreement with the Sponsor. If our services are terminated, fees will be pro-rated through the date of termination.

The following model-based programs are currently in place:

**Morgan Stanley Smith Barney LLC – SEC File Number 801-70103, CRD Number 149777**

As stated in the previous *Wrap Fee Programs* subsection, we provide investment advisory services to clients of Morgan Stanley Smith Barney through two programs: We serve as a sub-manager in the Select Unified Managed Account (“UMA”) program and as a fiduciary manager in the Fiduciary Services program, offered through the legacy Smith Barney Channel. Please see the previous section for more information regarding the Fiduciary Services program. For the Select UMA we offer discretionary investment management services by providing a mid cap value model to Morgan Stanley Smith Barney which will be implemented for the account of each client who has selected us. Morgan Stanley Smith Barney's decision to purchase, hold or sell securities for the accounts of clients in the Select UMA program will be based on the model that we provide.

Morgan Stanley Smith Barney is responsible for providing our disclosure statement (ADV Parts 2A and 2B) and Privacy Notice to its clients whose account are to be managed by us either at the time, or before, Morgan Stanley Smith Barney enters into an agreement with such clients. Annually, we are responsible for providing a copy of our Privacy Notice and for offering or providing a copy and material updates of our disclosure statement (ADV Parts 2A and 2B) to existing clients.

We are responsible for voting proxies for the accounts participating in the Select UMA program unless otherwise instructed.

**SunTrust Bank, a Georgia Bank**

We have entered into a sub-advisory agreement with SunTrust Bank, a Georgia Bank to provide non-discretionary investment management services to clients participating in the SunTrust Wealth and Investment Management UMA model. Under this sub-advisory agreement, KCM acts as a model manager by providing a mid cap value model for the Unified Managed Account (“UMA”) program without exercising investment discretion and without executing transactions in the

accounts participating in the program. SunTrust's decision to purchase, hold or sell securities for the accounts of clients in the UMA program will be based on the model that we provide.

SunTrust is responsible for providing our disclosure statement (ADV Parts 2A and 2B) to its clients whose account are to be managed by us either at the time, or before, SunTrust enters into an agreement with such clients. Annually, SunTrust is responsible for providing to its clients our Privacy Notice and updates to our disclosure statement (ADV Parts 2A and 2B.)

SunTrust is responsible for voting proxies, subject to each client's direction, for the accounts participating in the SunTrust Wealth and Investment Management UMA model.

**SunTrust Investment Services, Inc. – Sec File Number 801-56443, CRD Number 17499**

We have entered into a sub-advisory agreement with SunTrust Investment Services, Inc. ("SunTrust") to provide non-discretionary investment services to clients participating in the AMC Pinnacle program. KCM offers non-discretionary investment management services by acting as a model manager and thereby providing a model program without exercising investment discretion and without executing transaction in the accounts participating in the program. SunTrust's decision to purchase, hold or sell securities for the accounts of clients in the AMC Pinnacle program will be based on the model that we provide.

SunTrust is responsible for providing our disclosure statement (ADV Parts 2A and 2B) to its clients whose account are to be managed by us either at the time, or before, SunTrust enters into an agreement with such clients. Annually, SunTrust is responsible for providing to its clients our Privacy Notice and updates to our disclosure statement (ADV Parts 2A and 2B.)

SunTrust is responsible for voting proxies subject to each client's direction.

***Investment Manager Services***

We serve as investment manager to the following collective investment trust funds ("CIF") sponsored by Comerica Bank & Trust, NA.

- Kennedy Capital Small Cap Core CIF;
- Kennedy Capital Small Cap Value I CIF; and
- Kennedy Capital Small Cap Fundamental Growth CIF.

We serve as the investment manager pursuant to an investment management agreement and receive a fee for managing the investment portfolio. The CIFs have not been registered under federal or state securities laws and are subject to an exemption provided by Rule 3(c)(11) of the Investment Company Act of 1940. The CIFs are only available for investment by qualified retirement plans and are not for sale to the general public.

We serve as the manager of the KCM Small Cap Core Fund, LLC (the "Core Fund") and the KCM Mid Cap Value Fund, LLC (the "Mid Cap Fund") (collectively, the "Funds"), limited liability companies organized under the Missouri Limited Liability Company Act. Investors in the Funds must be "accredited investors" as defined in Regulation D of the Securities Act of 1933, as amended, or must be "qualified purchasers" within the meaning of Section 2(a)(51) of the Investment Company Act of 1940. We serve as



the investment adviser to each pursuant to investment advisory agreements and receive a fee for managing the investment portfolios.

## ***Assets Under Management***

We have the following assets under management as of 12/31/2016:

<b>Non-Discretionary Assets:</b>	<b>Discretionary Assets:</b>	<b>Total Firm Assets:</b>
\$1,541,991.00	\$6,003,063,398.56	\$6,004,605,389.56

## **FEES AND COMPENSATION**

Approximately 100% of our revenue is generated from advisory fees. Our advisory fees are generally based on a percentage of assets under management, and exclude costs that may be imposed by your custodian, broker-dealer, and other third party managers. These additional costs may include custodial fees, brokerage commissions, transaction fees, odd lot differentials, transfer taxes, wire transfer and electronic fund fees and other miscellaneous fees and taxes on brokerage accounts and securities transactions and other related costs and expenses. Additionally, securities traded on a non-U.S. exchange may incur additional fees and expenses.

Advisory fees for any particular client or account are negotiable and may be lowered or waived under certain circumstances, in our discretion. When negotiating advisory fees, certain factors may be considered including but not limited to: strategy, capacity size of the strategy, asset size of the account, complexity of the client situation, services provided and similarity of the account to other accounts we manage.

### ***Fee Schedules***

<b>Strategy</b>	<b>Annual Management Fee</b>
<b>Micro Cap Strategy</b>	
Micro Cap	1.25% on the first \$30 million in assets 1.00% on the balance over \$30 million in assets
<b>Small Cap Strategies</b>	
Small Cap Select	1.00% on the first \$30 million in assets
Small Cap Select SRI	0.90% on the next \$20 million in assets
Small Cap Core	0.80% on the balance over \$50 million in assets
Small Cap Fundamental Growth	
Small Cap Value I	
Small Cap Extended	
<b>Mid Cap and SMID Cap Strategies</b>	
SMID Cap Core	0.90% on the first \$30 million in assets
SMID Cap Growth	0.80% on the next \$20 million in assets
SMID Cap Value	0.70% on the balance over \$50 million in assets
Mid Cap Growth	
Mid Cap Value	
ESG Impact	

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**All Cap Value Strategy**

All Cap Value

0.70% on all assets

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The specific manner in which advisory fees are calculated is established in each client's advisory agreement with KCM. Annual advisory fees are generally calculated and paid quarterly, in advance or in arrears, with some being calculated and paid monthly as provided in the advisory agreement. Quarterly fees are generally calculated as the annual advisory fee divided by four.

Advisory fees are generally payable quarterly in arrears based on the average of the asset values including cash under management at the end of each month during the quarter, although in certain instances some accounts are billed quarterly in advance based on the account asset values on the last day of the previous quarter. In certain circumstances, other paying arrangements may be negotiated upon client request. Advisory fees may be pro-rated for substantial additions to, or withdrawals from, the account during each quarter for each billing period as provided in the advisory agreement. Upon request, related client accounts may be aggregated in order to determine fee breakpoints.

The value of the client's account, as calculated by our client accounting system, Advent APX, is used to compute advisory fees unless specified otherwise within the advisory agreement. Advent APX calculates security valuations based upon information that is received from third party pricing vendors. Your custodian or consultant may use a different third party pricing vendor to value your account. Due to some disparities among third party pricing vendor security prices, account values as reported by us, your custodian and/or your consultant may vary.

In arrangements where KCM provides sub-advisory services to a number of unaffiliated mutual funds, KCM and the adviser for each sub-advised fund negotiate KCM's fees for providing those services. The sub-advisory fees are set forth in the sub-advisory agreement between KCM and that adviser. KCM's fee is a component of the total investment advisory fee paid by an investor in the specific sub-advised mutual fund. Additional details regarding the fees charged to an investor in any such fund are available in the current fund Prospectus.

Assets managed under the wrap fee programs and model programs are calculated by the Sponsor. KCM will not provide an invoice to the clients. It is the Sponsor's responsibility to handle collection of client fees. KCM is compensated directly by the Sponsor based upon the assets managed within these relationships. Clients participating in these programs should refer to the Sponsor's program brochure and agreements for information regarding additional fees and expenses.

In certain situations, the advisory fees for employee accounts will be reduced, such as, the employee invests personal assets in a new or existing KCM strategy at the discretion of the Portfolio Manager.

**KCM Small Cap Core Fund, LLC and KCM Mid Cap Value Fund, LLC (the "Funds")**

We serve as the manager of the Funds and as the investment adviser to each pursuant to investment advisory agreements and receive a fee for managing the investment portfolios. The Confidential Offering Memorandum or other offering documents for each of the Funds provide a description of the fees and expenses. For each Fund, the annual fee is paid quarterly in arrears, calculated as a percentage of an average of the Fund's net asset value.



When requested, related client accounts may be aggregated in order to determine fee breakpoints. Although assets held in the Funds may be included in asset totals for the purpose of such aggregation, the fees charged to clients in the Funds will not be affected by any breakpoints that may be determined to apply to clients for whom we manage separate accounts.

### **Kennedy Capital Collective Investment Trust Funds**

We serve as investment manager to the following collective investment trust funds (“CIF”) sponsored by Comerica Bank & Trust, National Association (“Comerica”). We serve as the investment manager pursuant to an investment management agreement and receive a fee for managing the investment portfolio. Comerica pays KCM the following management fees (the “Management Fee”):

Strategy	Annual Management Fee
<b>Kennedy Capital Small Cap Core CIF</b>	
Small Cap Core	0.85% on the first \$50 million in assets
	0.80% on the balance over \$50 million in assets
<b>Kennedy Capital Small Cap Value I CIF</b>	
Small Cap Value I	1.00% on the first \$30 million in assets
	0.90% on the next \$20 million in assets
	0.80% on the balance over \$50 million in assets
<b>Kennedy Capital Small Cap Fundamental Growth CIF</b>	
Small Cap Fundamental Growth	1.00% on the first \$30 million in assets
	0.90% on the next \$20 million in assets
	0.80% on the balance over \$50 million in assets

The Management Fee accrues daily at the annual rate as a percentage of the daily asset value for each CIF. Comerica pays KCM the Management Fee monthly in arrears. Out of pocket expenses (i.e., pricing and research, fair value, transfer agency, etc.) above the capped expenses of each CIF will be paid out of KCM’s Management Fee. If the investment management agreement is terminated, the Management Fee due to us will be prorated to the date of termination.

Please refer to each CIF’s Fact Sheet for complete information regarding the expense ratio charged by the sponsor, Comerica Bank & Trust, NA.

### ***Payment of Fees***

Unless otherwise instructed in the advisory agreement, invoices are generated quarterly and at your request may be mailed, faxed or emailed. Upon your written authorization, we will provide an invoice containing management fee information to the custodian of your account. The custodian will then remit the management fee directly to us by deducting it from your custodial account. Statements provided to you by your custodian will detail the total amount of the management fees that have been deducted per quarter. Generally, custodians do not confirm the accuracy of our management fee calculation. We encourage you to review the invoice for accuracy and to contact us with regards to any identified discrepancies or questions. The invoice sent to you itemizes the management fees, including details of the calculation, the time period covered, and the amount of your assets under management upon which the management fee is based.

### ***Clients Are Responsible for Third Party Fees***

You are responsible for the payment of all third party fees such as custodial fees, brokerage fees, transaction fees, etc. Those fees are separate and distinct from the fees and expenses charged by us. For additional information, please see the section titled *Brokerage Practices* of this Brochure.

### ***Prepayment of Fees***

We collect management fees in advance or in arrears depending upon the terms of the advisory agreement.

- For new accounts billed in advance, a pro-rata fee is charged based upon the days under management for the quarter and on the initial assets deposited in the account.
- For new accounts billed in arrears, a pro-rata fee is charged based upon the market value of the account at the close of the applicable billing period.

The advisory agreement may be terminated by providing written notice to the other party according to the terms of the advisory agreement. Upon termination, any prepaid management fees relating to the remainder of the calendar quarter will be refunded to you. If the management relationship is terminated prior to the end of the quarter:

- For accounts billed in advance, management fees will be refunded based upon the total days remaining in the billing period for which our services were not provided.
- For accounts billed in arrears, a final pro-rated fee will be calculated according to the number of days for which we provided investment advisory services during the current quarter.

### ***Most Favored Nation Clauses***

We generally do not enter into advisory agreements with most favored nation (“MFN”) clauses. However, certain institutional clients have negotiated such clauses in their advisory agreements. These clauses require us to decrease management fees charged to the MFN client if KCM enters into an advisory agreement at a lower effective fee rate with another institutional client based on certain criteria. The applicability of a MFN clause may depend upon various factors as detailed in the advisory agreement. However, KCM does not agree to MFN clauses in all circumstances where institutional clients are similarly situated.

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

We do not accept compensation for the sale of securities or other investment products, including asset-based sales charges or service fees from the sale of mutual funds.

## PERFORMANCE FEES AND SIDE-BY-SIDE MANAGEMENT

We may enter into performance-based fee arrangements with selected clients. All such performance fee arrangements are designed to comply with the provisions of Rule 205-3 under the Act. Such performance fees are charged on a minimum time period of one year. To qualify to obtain the performance-based fee, each client must have at least \$1,000,000 under our management, or is a client who we reasonably believe to have a net worth of \$2,000,000 calculated as provided in Rule 205-3 under the Act, or is a qualified purchaser as defined in section 2(a)(51)(A) of the Investment Company Act of 1940 at the time the client enters into the performance fee agreement.

Performance fees are based on a formula which includes the amount of assets under management and the extent to which the growth in the assets exceeds a specific index. For example, we believe that the appropriate index for use in performance fee arrangements for accounts in the small cap strategy is the Russell 2000<sup>®</sup> Index, as the stocks in this index most closely approximate the small cap market from which investments are selected. However, upon client request and with our consent, another index may be used as a benchmark for performance fee arrangements. For the purposes of determining unrealized gains and losses, the valuation of securities for which market quotations are not readily available is determined using an objective, observable and unadjusted quoted market price for an identical investment in an active market on the measurement date, if available. In the absence of an objective, observable unadjusted quoted market price for an identical investment in an active market on the measurement date, the valuation must represent our best estimate of the fair value.

Clients should understand that the following conflicts of interest are inherent with performance-based fee accounts.

- These accounts create an incentive for us to make riskier, more speculative investments than would be the case in the absence of a performance fee. Due to the inclusion of unrealized appreciation we may receive more compensation than from an account with only an asset based fee.
- It is possible that our portfolio managers simultaneously manage accounts that are charged a performance based fee with accounts that are charged an asset based fee. This may create a conflict of interest in that a performance fee might provide incentive for us to favor the performance fee account creating a disadvantage for other non-performance fee accounts.

We believe these conflicts are mitigated by managing these accounts consistently with that of other asset based fee accounts pursuant to the selected style and are therefore subject to the same aggregation and pro-rata allocation as all other clients in the same style. Please refer to the section titled *Brokerage Practices* for further information.

## TYPES OF CLIENTS

We generally provide investment management services on a discretionary basis to the following types of clients:

- Pension and profit sharing plans;
- Public/municipal entities;
- Taxable and tax-exempt institutions;
- High net worth individuals;
- Family offices;
- Banks or thrift institutions;
- Registered investment companies;
- Taft-Hartley/Union plans;
- Trusts, estates, and charitable organizations;
- Foundations and endowments;
- Collective investment trusts;
- Other pooled investment vehicles;
- Wirehouse consulting accounts; and
- Corporations or business entities other than those listed above.

KCM also provides services to clients of other investment or brokerage firms through wrap fee arrangements and other programs, where KCM is not provided information regarding the final client and is not responsible for the implementation of its recommendation by the program provider or Sponsor.

Prior to opening an account, you will be asked to sign an advisory agreement (except in certain sub-advisory relationships) which will grant us discretionary investment authority over your account. The advisory agreement explains the services, strategies, fees charged and typically authorizes us to exercise general discretionary authority in the management of your account. Discretionary investment authority includes the investment and reinvestment of your account assets in securities and amounts of such securities to be purchased or sold without prior consultation with you. Unless you have directed us otherwise in writing, discretionary investment authority also allows us to select the broker-dealer to be used and the commission rate to be paid without prior consultation with you.

We will also ask you to complete a Client Relationship Form that will provide us with additional details and information regarding you and your account. It also provides you the ability to place reasonable restrictions on your account. As an example, a common restriction prohibits us from purchasing specific companies in a client's account. Any client may reasonably specify in the advisory agreement or otherwise instruct us regarding specific conditions or limitations on the types of investments to be made for an account.

Additionally, upon opening an account and in order to comply with our anti-money laundering policy we will ask you to provide certain identifying documentation such as government issued identification, articles of incorporation, partnership agreement, trust instrument or other appropriate documentation.

We generally do not have absolute minimum requirements regarding the amount of assets needed to open or maintain an account. We do have preferred minimum account sizes, which may be waived or lowered

at our discretion based on the character of the account. These minimums will generally not apply to wrap or other wirehouse consulting accounts which tend to have lower thresholds. The preferred initial minimum account size is listed below (if the strategy is open to new investors).

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**Institutional and Individual Micro Cap Accounts**

\$10,000,000

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**Institutional and Individual Small Cap Core Accounts**

\$10,000,000

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**Institutional and Individual Small Cap Growth Accounts**

\$5,000,000

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**Institutional Small Cap Accounts** *(unless otherwise noted)*

\$10,000,000

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**Individual Small Cap Accounts** *(unless otherwise noted)*

\$1,000,000

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**Institutional and Individual Mid Cap and SMID Cap Accounts**

\$5,000,000

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**Institutional and Individual ESG Impact Accounts**

\$1,000,000

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**Institutional and Individual All Cap Value Accounts**

\$1,000,000

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**Wrap and Model Programs**

The account minimum for wrap and model programs will vary by program sponsor. Please review the wrap brochure provided by the Sponsor for information regarding their program.

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***Anti-Money Laundering Policy***

To help the government fight the funding of terrorism and money laundering activities, the U.S. Patriot Act and Federal law require financial institutions to obtain, verify, and record information identifying each person who opens an account. We support the fight against money launderers and, prior to opening an account, will ask for information and documentation that will allow us to verify your identity. Until the information or documentation we need is provided and until we have verified your identity, we may not be able to open an account or provide services to you. Existing clients' identities will be verified periodically and, if necessary, the account may be closed.

Under certain arrangements, such as the model programs through which we are retained as a sub-adviser, we will not be responsible for verifying the identities of the Sponsors' clients. While these procedures are not yet required of investment advisers, the development, adoption and implementation of anti-money laundering procedures is clearly considered a best practice for our industry.

The U.S. Patriot Act requires the maintenance of records and periodic updating of identity verification. We recognize the importance of safeguarding clients' non-public personal information and are committed to maintaining the confidentiality of the information clients provide in accordance with our *Privacy Notice*.

## ***Privacy Notice***

Our Privacy Notice is located as Exhibit A at the end of this Brochure.

## **METHODS OF ANALYSIS, INVESTMENT STRATEGIES AND RISK OF LOSS**

Your assets may be invested in various securities of domestic or foreign issuers, including (but not limited to) common and preferred stock, American depository receipts, real estate investment trusts, convertible securities, exchange traded funds and/or corporate bonds.

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

Our investment strategy centers around fundamental, “bottom-up” stock picking, which means we seek to place investment ideas into client accounts one stock at a time based on fundamental research into a company’s operations, financials, and outlook, as well as our assessment of the potential value investors may assign to a business in the future versus value being assigned to it in the equity market currently.

We seek to invest in securities, primarily domestic equities (“stocks”), which we believe are both undervalued and are likely to appreciate over time. We typically invest with a relatively long term horizon (i.e. greater than 12 months). We do not engage in taking short positions (“shorting”), which effectively involves making a bet on a decline in securities. We may use tools and procedures (“screening”) to help guide our research and make more efficient use of time; however, we generally do not ‘automatically’ place securities into client accounts based on computer model outputs alone.

The fundamental characteristics of each security are evaluated by our analysts and/or portfolio managers prior to inclusion into a strategy.

Our method of analysis incorporates the concept of return on investment (“ROI”), and more specifically return on invested capital (“ROIC”) which is our preferred measure of corporate performance. ROIC is the net operating profit a business generates expressed as a percentage of the total capital invested in that business. Among other things, we seek to understand how a company’s sales growth, profit margins and asset base may change over time and the implications of those changes for a company’s ROIC and cash flows.

Attractive investment candidates typically exhibit characteristics such as improving sales, earnings cash flows, new products and/or market share capture opportunities, high and/or improving return on invested capital, allocation of capital by management in ways that benefit shareholders, conservative accounting and/or other fundamental characteristics we believe are not appropriately reflected in the current price of the security. Attractive securities may include companies with business models that in our opinion are already performing at a high level, or those we believe are capable of improving, but in either case a security’s valuation will typically reflect lower investor expectations than we deem appropriate. Our analysis seeks to identify catalysts that may drive an improvement in a business’ economic value and the valuation accorded to it by investors.

In pursuit of these goals, we employ a large staff of industry-specific research analysts as well as an earnings screening process that help us capture positive inflections in business models by reviewing business and financial results on an ongoing basis.

We also obtain information about potential investment candidates from many types of public information, including, but not limited to, filings with the SEC and other federal and state regulatory agencies, financial publications, discussions with corporate management, public conference calls and presentations, site visits, outside analysts, industry reports, court records, press releases, and research reports. We may periodically purchase stocks based upon the research analysis and recommendations of analysts and brokers at other financial services firms. Employees are encouraged to use our extensive computer-based technology to evaluate information on potential investment candidates. We prohibit our employees from illegally seeking, using, trading upon, or disseminating material non-public information as prescribed by law.

Once a security is purchased in a strategy, we continue to evaluate the progress of the business relative to our investment thesis and how the security is priced relative to our assessment of the business' economic value. Reasons for us to sell a security include, but are not limited to, its price reaching a level consistent with our assessment of the business' economic value, deterioration in its fundamentals relative to our expectations, a desire to replace it with another more attractive security, or its market capitalization growing to exceed the targeted range for a given strategy. Market liquidity and other trading considerations may also influence the timing of sales.

We often find fertile ground in small cap securities (roughly less than \$5 billion in market value), which have historically been our primary focus. However, we believe that our process also applies to mid and larger cap securities.

The portfolio managers have final decision making responsibility for their specific strategies. We implement our investment process through a variety of products designed to address clients' specific needs. Clients may select an investment style such as "growth", "value", or "core" (which is a combination of growth and value), or target a specific market capitalization range of "micro", "small", "mid", or sometimes a combination of investment style and market cap. Equities are chosen using the same process regardless of the size of the client account.

### ***Material Risks Involved***

Past performance is not a guarantee of future returns. Investing in securities involves risk of loss that you, as a client, should be prepared to bear.

**Management Risk** – There is no guarantee that individual securities will perform as we anticipate. Our judgments for an individual security or a particular asset class regarding the attractiveness, value and potential appreciation may be inaccurate. If our investment strategies do not produce the expected results, a client's investment could be diminished or even lost.

**Equity Market Risk** – Overall stock market risks may affect the value of the investments in equity strategies causing the market value of securities to move up and down, sometimes rapidly and unpredictably. These fluctuations may cause a security to be worth less than the price that was originally paid, or less than it was worth at an earlier time. Market risk may affect a single issuer, an industry, or a



sector of the economy or the market as a whole. Equity markets are affected by factors such as economic growth and market conditions, interest rates, currency exchange rates and political events in the U.S. and abroad.

**Undervalued Stocks Risk** – Undervalued stocks can react differently to issuer, political, market and economic developments than the market as a whole and other types of stocks. Undervalued stocks tend to be inexpensive relative to their earnings or assets compared to other types of stock. However, these stocks can continue to be inexpensive for long periods of time and may not realize their full economic value.

**Growth Company Risk** – Growth stocks are expected to increase sales, cash flow and/or earnings faster than the market as a whole and often sell at a premium to stocks of companies with lower expectations. However, these expectations may not be realized and the growth premium may prove to be unjustified.

**Micro, Small and Mid Cap Company Risk** – Investments in micro, small and mid cap companies may be riskier than investments in larger, more established companies. The securities of these companies may trade less frequently and in smaller volumes than securities of larger companies. In addition, micro, small and mid cap companies may be more vulnerable to economic, market and industry changes.

**Impact Investing Risk** - Since the ESG Impact strategy seeks to make sustainable investments with an enhanced application of Kennedy's environmental, social and governance standards, it may choose to sell, or not purchase investments that might otherwise be considered. In general, the application of our environmental, governance and social standards will affect the strategy's exposure to certain issuers, industries, sectors, regions, and countries and may impact the relative financial performance of the strategy – positively or negatively – depending on whether such investments are in or out of favor.

**Foreign Security Risk** – It is important to understand that foreign securities (even those that trade on a U.S. exchange) offer different risks from domestic equities as many foreign countries may not have regulations that are as stringent as U.S. regulations when dealing with securities and issuers. As a consequence, the depth of information and disclosure may not be as great in foreign countries. Investing in foreign securities may also expose investors to the risk of fluctuations in currency exchange rates beyond that involved in owning domestic equities. There may also be sovereignty risks in that the government of a foreign company's country may place restrictions on capital and currency flows and may also nationalize firms or industries, expropriate private property and restrict foreign ownership of business and/or markets. Foreign banks and brokerages also recognize separate and additional holidays that may affect trade settlements, the receipt of dividends and income, and all other capital transactions including liquidations. Foreign issues may be subject to withholding taxes on dividends from the country of origin. Moreover, additional custodial costs may be incurred with foreign issues.

**Currency Risk** – Investing in foreign securities presents certain unique risks not associated with domestic investments, such as currency fluctuation and political and economic changes. Securities may be purchased that are denominated in currencies other than the U.S. dollar. Foreign currency fluctuates against the U.S. dollar. When the value of a foreign currency declines against the U.S. dollar, the value of the account's shares will tend to decline.



## ***Risks of Specific Securities Utilized***

We purchase for client accounts common stock which is a class of security representing equity ownership in a corporation. Holders of common stock have the right to elect directors and collect dividends. Common stock claims are subordinate to bondholder claims, preferred stockholders, and general creditors.

For clients without restrictions, we may also invest in stocks of foreign issuers that are either listed on a U.S. exchange represented by American Depositary Receipts (ADRs), American Depositary Shares (ADSs), or “ordinary” shares (ORDS), or securities that trade on foreign non-U.S. exchanges.

We may purchase equity securities which are “restricted” within the meaning of Rule 144 under the Securities Act of 1933, as amended (the “Securities Act”), or whose sale is otherwise limited. Unless these limitations are eliminated by registration of a sale transaction under the Securities Act or the availability of an exemption from the registration requirement, the price at which sale transactions are executed may be different than the market price of the same securities whose sale is not restricted.

We may purchase equity securities which are “restricted” within the meaning of Rule 144A under the Securities Act which provides a safe harbor exemption from certain registration requirements and which allows resale of such securities to qualified institutional buyers, under certain conditions.

From time to time exchange-listed master limited partnerships (“MLP”) with operations in various industries may be purchased. An investment in MLP units involves risks that differ from a similar investment in equity securities, such as common stock, of a corporation. Holders of MLP units have the rights typically afforded to limited partners in a limited partnership. As compared to common shareholders of a corporation, holders of MLP units have more limited control and limited rights to vote on matters affecting the partnership. Certain tax risks are associated with an investment in MLP units.

We may invest in exchange-traded funds (“ETFs”), which own a basket of stocks that track a particular stock market index. Changes in the price of an ETF, before deducting its expenses, track the movement of the associated index relatively closely. ETFs charge their own management fee and other expenses that come directly out of the funds’ returns. In addition to the ETF’s management fee and other expenses, a commission on each purchase or sale may be charged by the executing broker-dealer. The principal risks associated with ETFs include the risk that the equity securities in an ETF will decline in value due to factors affecting the issuing companies, their industries or the equity markets generally.

From time to time, we may purchase private placements for selected clients. Private placements (generally, securities which cannot be sold absent registration or an exemption from registration) involve certain risks including the lack of liquidity and objective third party pricing sources. We price equities purchased in private placements and other restricted securities at fair value.

A security may be frequently traded in a strategy as determined by the portfolio manager. Frequent trading of securities can affect investment performance, particularly through increased brokerage commissions and taxes. Frequently traded securities may cause a client’s account to have a high turnover rate along with the potential for high volatility and increased transaction costs. Portfolio turnover rates for some strategies may be greater than others due to the investment style of that particular strategy.

Risks associated with real estate investment trusts ("REITs") include: real estate industry risk which is the risk that REIT share prices will decline because of adverse developments affecting the real estate industry and real property values; real estate values can be affected by a variety of factors, including supply and demand for properties, the economic health of the country or of different regions, and the strength of specific industries that rent properties; investment style risk which is the risk that returns from REITs, which typically are small or medium capitalization stocks, will trail returns from the overall stock market; and interest rate risk which is the risk that changes in interest rates may hurt real estate values or make REIT shares less attractive than other income-producing investments.

## **DISCIPLINARY HISTORY**

We are required to disclose in this Brochure facts about any legal or disciplinary events that have occurred in the last ten (10) years that are material to a client's or prospective client's evaluation of our advisory business or the integrity of our management. We do not have legal or disciplinary information to disclose.

## **OTHER FINANCIAL INDUSTRY ACTIVITIES AND AFFILIATIONS**

### ***Registration as a Broker-Dealer or Broker-Dealer Representative***

We are neither registered as a securities broker-dealer nor are we affiliated with a broker-dealer. Additionally, none of our employees are registered or affiliated with a broker-dealer.

### ***Registration as a Futures Commission Merchant, Commodity Pool Operator, or a Commodity Trading Advisor***

We are not registered as a futures commission merchant, commodity pool operator, or a commodity trading adviser.

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

We serve as the manager of the KCM Small Cap Core Fund, LLC (the "Core Fund") and the KCM Mid Cap Value Fund, LLC (the "Mid Cap Fund") (collectively, the "Funds"), limited liability companies organized under the Missouri Limited Liability Company Act. We serve as the investment adviser to each pursuant to investment advisory agreements and receive a fee for managing the investment portfolios. We may recommend subscriptions for units of the Core Fund, and either Class A or Class B units of the Mid Cap Fund (depending on whether or not the investor who proposes to subscribe to the Mid Cap Fund is a "restricted person" as defined under Rule 5130 of the U.S. Financial Industry Regulatory Authority - FINRA) to our clients who are accredited investors. The units have not been registered under federal or state securities laws and are subject to an exemption provided by Rule 506 of Regulation D under the Securities Act. The Core Fund members have the same type of interests and the Mid Cap Fund has both Class A and Class B units, but all current owners (including us) own Class A units. The units are offered only to accredited investors through the means of a private placement

memorandum (PPM). We encourage you to review the PPM along with the offering documents prior to investing in either of the Funds for a detailed discussion of risks associated with these Funds.

A conflict of interest may arise as we recommend the Funds to our clients and also own units of the Funds as do several of our employees. We manage our own assets and employee assets along with client assets and may be incented to provide preferential treatment to our employee and internal accounts. To address this potential conflict we have developed procedures that provides for these accounts to be treated similarly to any other client account and in a manner that we believe does not conflict with the interests of any client.

A current member of our board of directors who is not an employee (an outside director) also serves as the general partner of one or more limited partnerships and serves as a board member or trustee of one or more exchange traded funds and closed end funds that may invest directly or indirectly in items such as debt and equity securities, private funds and real estate. While certain of our clients may have invested in one or more of these limited partnerships, exchange traded funds, or closed end funds none of these investments were made by using assets from accounts managed by us and these investments were made without consulting us.

### ***Selection of Other Advisors or Managers and How This Adviser is Compensated for Those Selections***

We do not select or advise our clients regarding other advisors or third party managers. We manage all client assets entrusted to us.

### ***Other Information***

KCM is not registered with any foreign financial regulatory authority. However, as contractually required in order for KCM to qualify for a sub-advisory relationship, on April 21, 2011 the Central Bank of Ireland (the "Central Bank") responded to an application by stating in writing that it has no objection to KCM acting as an investment manager to Irish authorized collective investment schemes ("Irish Funds"). The Central Bank supervises Irish Funds and any investment manager appointed to advise them must meet certain criteria. KCM is not registered with the Central Bank and the Central Bank does not supervise KCM.

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

### ***Code of Ethics***

We have adopted a Code of Ethics (the "Code") to establish policies addressing our fiduciary duties to our clients. The Code generally prohibits fraudulent or manipulative practices in connection with client investments. The Code establishes policies regarding personal trading by Access Persons. Specifically, the Code prohibits personal trading in any security (a) being considered for purchase or sale for a client, or (b) which has been purchased or sold for the account of clients in the previous five (5) business days with the exception of adjusting transactions. In addition, the Code establishes an investment holding

period of thirty (30) calendar days, subject to certain exceptions. Under certain circumstances, exceptions may be made to the personal trading policy. Records of these trades, including the reasons for the exceptions, will be maintained by the compliance department.

Procedures have been implemented to ensure compliance with the provisions of the Code, including preapproval of personal securities transactions, quarterly affirmations of compliance and annual holding reports. Our personal trading policy is periodically reviewed in light of industry practices, SEC proposals and rules, and best practice recommendations of organizations such as the Investment Adviser Association. Updates to our Code may be made with the approval of our Board of Directors. You may obtain a copy of the Code by writing to Kennedy Capital Management, Inc. at 10829 Olive Boulevard, St. Louis, MO, 63141.

### ***Recommendations Involving Material Financial Interests***

Our firm does not buy or sell securities for client accounts in which our firm or a related person has a material financial interest. We have adopted procedures that are reasonably designed to mitigate the potential misuse of material non-public information including the use of restricted lists, internal controls and information barriers.

Our firm may receive information that restricts its ability to buy or sell securities for substantial periods of time when a profit could be realized or a loss could be avoided. In certain instances, we may have knowledge of information that is both material and non-public ("MNPI") regarding public companies in which we may invest client assets. Trading on this information is prohibited under Section 204A of the Investment Advisers Act of 1940, as amended and we also prohibit trading on MNPI. Restrictions may adversely affect a PM's flexibility in buying or selling securities.

We serve as manager of the Funds and may recommend them to our clients. A discussion of the Funds may be found in the section titled *Other Financial Industry Activities and Affiliations*. We earn a management fee on the Funds and may be incented to treat them more advantageously than other client accounts. To address this potential conflict we have developed procedures that provides for the Funds to be treated similarly to any other client account and in a manner that we believe does not conflict with the interests of any client.

We also manage accounts in which we have invested our own seed money. These accounts are treated similarly to any other client account and in a manner that we believe does not conflict with the interests of any client.

### ***Investing in the Same Securities as Clients***

As we permit our employees to engage in personal securities transactions, conflicts of interest may exist when an employee trades in a security that is considered for purchase or sale by a portfolio manager for a client account. Our employees may hold, buy, or sell the same, similar, or related (i.e., warrants, options) securities in their personal trading accounts that are held, bought, or sold in client accounts. It is our policy that employees must wait five (5) business days to purchase or sell a security after the security has been bought or sold for client accounts with the exception of adjusting transactions; thus, preventing employees from benefitting from transactions placed on behalf of our clients. However, to reduce any conflicts of interest, procedures have been established so that our clients receive priority for any security

that is being considered by an employee in a personal trading account. Additionally, transactions effected in employee personal trading accounts must be executed at the broker-dealer through which they are maintained and as a result are not traded through KCM's trading desk.

Conflicts of interest may arise regarding the actions taken for our own accounts or the accounts we manage for our employees, directors, or affiliates ("Affiliated Persons") or for accounts in which Affiliated Persons may participate, such as an unaffiliated mutual fund for which we serve as the sub-adviser. While certain of our Affiliated Persons may have invested in one or more of these unaffiliated mutual funds for which we serve as sub-adviser, none of these investments were made by using assets from accounts managed by us.

We may buy or sell securities for Affiliated Persons or accounts in which our Affiliated Persons may participate that we also recommend to clients. Or we may buy or sell securities for accounts in a strategy or strategies that our Affiliated Person(s) may manage which we also recommend to clients. It is our policy that the account(s) is/are managed consistently with that of all other client accounts managed in the selected style. In the event Affiliated Persons participate in any of the strategies offered or managed by us, a conflict of interest may arise regarding trade execution and/or allocation. See *Brokerage Practices* for information regarding allocations.

Our investment management services are not offered exclusively to any client and we will expect to continue to serve as investment manager (or in a similar role) for current and future client accounts.

It is our policy that we will not conduct any principal or agency cross transactions between client accounts. Principal transactions are generally defined as transactions where an adviser, acting as principal for its own account or the account of an affiliated broker-dealer, buys from or sells any security to any advisory client. An agency cross transaction is defined as a transaction where a person acts as an investment adviser in relation to a transaction in which the investment adviser, or any person controlled by or under common control with the investment adviser, acts as broker for both the advisory client and for another person on the other side of the transaction.

### ***Trading Securities At or About the Same Time as Clients***

Our Code prohibits employees or related persons from personally purchasing or selling a security (a) being considered for purchase or sale for a client, or (b) which has been purchased or sold for the account of clients in the previous five (5) business days with the exception of an adjusting transaction. Employees with accounts managed by us with full discretion similar to other client accounts are not subject to the personal trading requirements with the exception of initial public offerings. These accounts are considered client accounts and are managed consistently with that of other client accounts pursuant to the selected style and are therefore subject to the same aggregation and pro-rata allocation as all other clients. Employee accounts do not receive preferential treatment in the trade allocation process.

### ***Intern Program***

KCM supports an active intern program. Students with an interest in pursuing a career or degree in finance will generally complete advanced coursework related to securities analysis, valuation and portfolio management. In some cases, university coursework involves not only securities analysis and valuation studies, but may require students to make recommendations for an actively traded university-

sponsored portfolio. KCM interns routinely assist our analysts and portfolio managers with company analysis and have access to the recommendations of our analysts that must be used solely for the benefit of our clients. An intern that makes recommendations for an actively traded university-sponsored portfolio may cause that student's coursework to conflict with the interests of our clients. Such students must advise their KCM supervisor immediately upon registering for such courses so that their supervisor may place restrictions on the intern's access to information within KCM regarding the specific securities and/or sectors they may be assigned to follow. The student will be prohibited from using KCM proprietary research for purposes of their coursework and written coursework recommending any security for purchase or sale pertaining to the university's portfolio will be reviewed by KCM prior to the student's submission. We believe the procedures in place surrounding the student's activities regarding such coursework are adequate to address any potential conflict of interest with the interests of our clients.

## **BROKERAGE PRACTICES**

### ***Factors Used to Select Broker-Dealers***

It is KCM's fiduciary responsibility to ensure that to the best of our knowledge orders are only placed with reputable, qualified, and financially sound broker-dealers. In determining which broker-dealers to execute trades, we may consider various factors which we believe are important, such as:

- the quality of trade executions;
- costs of transactions;
- quality of client services;
- execution capability;
- the size and difficulty of the order;
- commission rates and volume discounts;
- financial responsibility;
- reputation;
- ability to integrate with our existing systems;
- effectiveness of systems for monitoring client investments and regulatory compliance;
- responsiveness; and,
- the brokerage and research services they provide.

While we seek competitive commission rates, the lowest possible commission rates may not necessarily be obtained for client transactions.

### ***Research and Other Soft Dollar Benefits***

Certain broker-dealers through which we execute trades may provide us with investment research, brokerage products or other services (collectively "Products and Services"). The research provided may be either:

- proprietary (created and provided by the broker-dealer, including tangible research products as well as access to analysts and traders) or
- third-party (created by a third party but provided by the broker-dealer).



The Products and Services may be useful for all client accounts, and not all research may be useful for the account for which the particular transaction was effected. We may select broker-dealers that may be paid commissions for effecting client transactions that exceed the amounts other broker-dealers might have charged for effecting these transactions if we determine in good faith that the incremental costs are reasonable in relation to the value of the Products and Services provided by those broker-dealers. Equity securities may be purchased from underwriters at prices that include underwriting fees.

Products and Services may be used by KCM for itself and/or our affiliates, and/or in the process of servicing some or all of its clients. In addition, some Products and Services may not necessarily be used for your account even though your commission dollars (or other transaction charges) helped to provide for the Products and Services. Therefore, in any particular instance, you may or may not be the direct or indirect beneficiary of the Products and Services provided. We may manage assets for clients who have established a wrap account arrangement with a wrap sponsor. Transactions for these types of accounts are generally executed directly with the wrap sponsor. The wrap sponsor will execute transactions for its clients without additional transaction costs (i.e., commissions) as its clients pay a bundled fee to the wrap Sponsor that includes costs such as trading commissions and custodial fees as well as other fees. In these instances, such clients will receive the benefit of Products and Services furnished through other client's commissions as transactions for these accounts are generally executed by brokers that do not provide Products and Services to us.

KCM uses client brokerage commissions to obtain research, products, or services (whether proprietary or third-party) and receives a benefit because we do not have to produce or pay for the research, products, or services itself, thus, reducing the cost of providing services to clients. Consequently, we may have an incentive to select or recommend a broker-dealer based on the desire to receive research, products, or services rather than a desire to obtain the most favorable execution, which we believe is in our clients' best interest. We seek to obtain the overall best execution for client transactions and selection of broker-dealers overall taking into account the value of the Products and Services of the type contemplated under Section 28(e) of the Securities Exchange Act of 1934, as amended, that are provided by broker-dealers.

Products and Services may either be provided by a broker-dealer, or paid for by a broker-dealer (either by direct or reimbursement payments - in whatever form - or by commissions, mark-ups, mark-downs or credits or by any other means) to be provided by others. Products and Services may be in any form (e.g., written, oral or on-line) and may include (but are not limited to):

- research products or services;
- clearance;
- settlement;
- custody;
- access to computerized data regarding clients' accounts;
- performance measurement data and services;
- statistical information;
- data on the pricing and availability of securities;
- security and/or market quotation services;
- on-line financial information;
- publications;
- document retrieval services;

- portfolio strategy advice;
- analyses and/or recommendations concerning specific sectors, industries, companies or securities, and governments;
- market, economic, political or financial information studies and/or forecasts;
- technical data, recommendations and general reports;
- access to brokerage conferences;
- brokerage; and
- computer databases.

These Products and Services may be in the form of written reports, access to various computer-generated data and software, telephone contacts, and/or personal meetings arranged with security analysts, economists, and corporate and industry spokespersons.

In addition, we also periodically obtain opinions from health care providers or other industry experts on industries in general as well as on specific companies or technologies, and these providers may be compensated by a broker-dealer on our behalf. In many cases, third-party research and other services are provided by means of orders executed through broker-dealers unrelated to the provider of research or other services.

In selecting broker-dealers to execute trades on behalf of clients, we need not solicit competitive bids and do not have an obligation to seek the lowest available transaction cost (i.e., commission). It is generally not our practice to negotiate “execution only” transaction costs (i.e., commission rates); thus, our clients may be deemed to be paying for Products and Services provided by the broker-dealer which are included in the transaction charges. When we determine that more than one broker-dealer can offer the brokerage and execution services needed to obtain the most favorable execution, consideration may be given to selecting those broker-dealers which also supply Products and Services that assist us in fulfilling our investment advisory responsibilities.

In addition, we have the ability to purchase over-the-counter (OTC) stocks for our clients directly from a market maker for whom such a transaction would be a principal transaction. Alternatively we may use broker-dealers to execute orders in OTC stocks on an agency basis, in which case a client may pay both a mark-up or a mark-down and a commission. We will utilize broker-dealers to execute OTC transactions when we believe it is in our clients’ best interests to do so, at the time the trade is placed.

KCM generally uses between 75 and 150 broker-dealers. Commissions generally range from \$0.005 to \$0.04 per share and KCM estimates that approximately \$0.02 per share is attributable to soft dollars.

As part of our continuing effort to improve investment performance, we endeavor to use the most appropriate trading mechanism available at the time each trade is placed.

In some instances, we may receive Products and Services that may be used for both research/brokerage and non-research/brokerage purposes. In such instances, we will make a good faith effort to determine the relative proportion of the Products and Services used for research/brokerage purposes and the relative proportion used for non-research/brokerage purposes. The proportion of the Products and Services attributable to research/brokerage purposes will be paid through brokerage commissions generated by client transactions, while the proportion attributable to non-research/brokerage purposes will be paid for



or reimbursed by us from our own resources. The receipt of “mixed-use” Products and Services and the determination of an appropriate allocation between research/brokerage and non-research/brokerage purposes create a potential conflict of interest between us and our clients. These arrangements are periodically reviewed in relation to Section 28(e) of the Securities Exchange Act of 1934, as amended.

In addition to traditional soft dollar arrangements, we may participate in commission sharing arrangements (“CSA”). A CSA is a type of soft dollar arrangement that allows KCM to establish a commission account with an executing broker-dealer. Transactions are effected with the broker-dealer at an agreed upon commission rate. The broker-dealer allows KCM to accumulate credits from a portion of the commission rate, and at a later time KCM requests the broker-dealer to use credits set aside in KCM’s commission account to pay an independent research provider for Products and Services that fall under the protection of Section 28(e).

We have entered into an agreement for certain business consulting services with an independent contractor who is also a consultant for one of the broker-dealers we use for trade execution services. In addition, the same broker-dealer provides proprietary research services to us and pays for the consulting fees charged by the consultant that are paid for by means of client commissions. This contractual arrangement has been made by and between the business consultant and Kennedy Capital Management, Inc., and the broker-dealer is not a party to it. This arrangement has not caused us to alter our use of this broker-dealer nor has it caused us to commit to or pay additional commissions for client transactions.

In no event are soft dollar credits to be used to offset losses from trading errors. A copy of our *Trade Error Policy* is available upon request.

### ***Brokerage for Client Referrals***

We do not select broker-dealers for trade execution based on our interests in receiving client referrals from broker-dealers or third parties. However, certain broker-dealers may recommend us to their clients and it is generally expected that trades for these types of accounts will be directed only to that particular broker-dealer.

### ***Directed Brokerage***

You may direct that a portion, or in certain circumstances all, of the transactions for your account (a “directed brokerage account”) be executed through one or more broker-dealers (a “directed broker”). In such cases, our policy is that you must negotiate the commissions or other charges and fees for your transactions with the broker-dealer. When you direct the execution of transactions through a particular broker-dealer, we are not responsible for the negotiation of transaction commissions or other related charges or fees. There may be a material disparity in commission charges directed to brokerage accounts and the accounts of other clients. For this reason, clients who direct us to use specified broker-dealers may not receive execution that is comparable to the best execution we might obtain on transactions if we were free to select the executing broker-dealers. Our investment advisory agreements include acknowledgements regarding these issues.

We may be able to include the order of a directed brokerage account with orders of other accounts with the objective of obtaining a better execution for the directed brokerage account if the executing broker-dealer will transfer the billing and settlement of the order to the directed broker (generally known as a

"step-out"). Reconciliation of the portion of the trade given to a directed broker is done through the clearing process between the two broker-dealers. Under such circumstances you may incur both a transaction cost for the execution of the trade and a transaction cost for the billing and settlement of the trade. We will bunch the trades of directed brokerage accounts only under circumstances in which we consider that executing the order in this manner is in the best interest of the directed brokerage account. Our investment advisory agreements include acknowledgements regarding these issues.

Although KCM does not participate in commission recapture programs, a client may request that their account transactions be executed through one or more broker-dealers. Where directed by a client (other than in a wirehouse consulting account or similar directed brokerage arrangement) in writing to use a particular broker-dealer for transactions in the client's account, it is our standard policy to use our reasonable best efforts to execute up to 25% of account securities transactions through the broker-dealer specified, where such securities are listed on a primary exchange ("listed securities"), if we have determined in our sole discretion that the broker-dealer can provide price and execution at least equal to the price and execution offered by other broker-dealers. We cannot commit to direct any specific dollar amount or percentage of trades to any particular broker-dealer due to the nature of our trading, which frequently requires us to trade directly with market makers in order to achieve best execution for our clients. It is important to recognize that 25% of transactions in listed securities could represent well below 25% of transactions placed for an account. Therefore, the 25% best efforts target will apply only to the segment of total account transactions that involves listed securities rather than all account transactions placed during a one-year period.

As a participating manager in various wirehouse consulting programs, we are generally free to place orders in these accounts through broker-dealers of our own choosing. However, since wirehouse consulting clients' fee arrangements generally cover transaction costs only when we place orders in these accounts through the wirehouse consulting program sponsor, in most cases we will place orders for wirehouse consulting accounts through the Sponsor since to do otherwise would likely increase the cost of wirehouse consulting services to the wirehouse consulting clients. When we place orders for wirehouse consulting clients through the sponsoring program broker-dealer, we will typically do so in a rotational manner, as described below.

Clients involved in wrap programs or similar directed brokerage arrangements should understand that client transactions generally are expected to be executed only with the broker-dealer providing custodial and other services, generally the Sponsor. No assurance can be provided that transactions executed through the broker-dealer providing custodial and other services will result in the best execution available to the client. Transactions executed for these accounts may be less favorable in some respects than those accounts whose trades are not executed through the broker-dealer providing custodial services. This is because we have no ability to negotiate price or take advantage of combined orders or volume discounts. Depending on a variety of factors, including the amount of the combined fee, the trading activity and the value of custodial and other services, the combined fee may or may not exceed the total cost of such services if obtained separately. Under certain circumstances, we may direct client securities transactions to a broker-dealer or intermediary other than the designated broker-dealer or custodian if, in our opinion, we believe that such direction is in the client's best interest.

## ***Aggregating Trading for Multiple Client Accounts***

It is our policy to seek overall best execution in all trading activities and to allocate purchases and sales of securities fairly among strategies and individual client accounts.

For the purposes of this section, “percentage ownership” means the percentage of the value of a particular stock in relation to the total asset value of your account. We employ several strategies in managing accounts, and a particular stock may be appropriate for and utilized in more than one strategy. Stocks may be held among different strategies managed by more than one portfolio manager. If one or more portfolio managers decide to sell the stock or purchase more of the stock then, to the extent that there is coordination among the portfolio managers, sales and purchases are allocated:

- first, among strategies in proportion to the amount of stock in the accounts of a strategy relative to the total held by all selling or purchasing strategies, and
- second, within each strategy, as described below.

### **New Positions**

When initiating a new position, shares purchased are generally allocated pro-rata relative to account assets among the clients for whom the stock is being purchased. Within a strategy, accounts may have approximately the same percentage ownership or different percentage ownerships, depending in part on specific account requirements and the manner in which shares were allocated at the time of purchase. If accounts have different percentage ownerships sales are generally allocated first to the account with the highest percentage ownership and subsequently to other accounts in the order of declining percentage ownership. However, at the discretion of each portfolio manager, additional purchases may be allocated first to accounts with the lowest percentage ownership and subsequently to other accounts in the order of increasing percentage ownership.

### **Existing Positions**

If accounts within a strategy have approximately the same percentage ownership, sales and additional purchases are generally allocated pro-rata among the accounts. In the case of sales, the amount of stock initially sold at the target price may be insufficient to liquidate a significant portion of every account which would otherwise be allocated pro-rata. Therefore, in the portfolio manager's discretion, shares sold may be allocated randomly among accounts, with each selected account being allocated shares sold in an amount sufficient to liquidate a specified portion of the position in the account (which may be the entire position) prior to shares being allocated to another account. This may result in positions in selected accounts being completely liquidated while other accounts continue to hold the stock.

Random allocation for purchases and sales is done automatically through the trade order management software system. If in the case of a sale, as a result of such random allocation, only a portion of the position in an account is sold, we may manually allocate shares sold in a subsequent block transaction in a fair and equitable manner to completely liquidate the remainder of such position. The allocation of shares sold may also reflect the judgment of the portfolio manager as to the specific needs of an account, such as the need for cash.

**IPOs**

We may be allocated shares of equity securities being sold in an initial public offering (a “new issue”). Under FINRA Rules, as they may be amended from time to time (the “Rules”), each client account or investor in a client account, as applicable, must certify to our satisfaction whether they are a “restricted person,” as defined by the Rules, prior to participating in any new issue profits or losses. If a client fails to provide us with such certification the client will be deemed a restricted person and will only be entitled to participate in new issue profits or losses at a reduced level, if at all. Our policy provides that a new issue will be allocated among client accounts in the same manner as other purchases of securities, to the extent allowed by the Rules. If the allocated new issue position is large enough, it will be allocated among the accounts as a percentage of the assets in our clients' accounts. Random allocations may be used to allocate small new issue positions and may result in some clients obtaining the benefits of new issues while others do not. Client accounts custodied at certain broker-dealers may not be included in IPO allocations because their custodian or broker-dealer will not settle such transactions.

**Limited Issuance**

Additionally, we may be allocated other securities in limited offerings, including private placements (each, a “Limited Issuance”). Our policy provides that a Limited Issuance will be allocated among client accounts in the same manner as other purchases of securities, to the extent allowed by applicable securities laws. If the allocated Limited Issuance position is large enough, it will be allocated among the accounts as a percentage of the assets in our clients' accounts. Random allocations may be used to allocate small Limited Issuance positions and may result in some clients obtaining the benefits of Limited Issuances while others do not.

**Bunching**

We may be able to obtain better execution and negotiate more favorable brokerage commissions for our clients by “bunching” orders in the same security with the objective of purchasing a block of stock for various clients. Whenever we determine that it is in the client's best interest to bunch client orders, we will attempt to execute the transactions in this manner. Because of prevailing trading activity, it is frequently not possible to receive the same price or execution on the entire volume of securities purchased or sold. When this occurs, the various prices may in our sole discretion be averaged and accounts will be charged or credited with the average execution price as reported to us by the broker-dealer through whom the securities were purchased or sold. In such cases, each client that participates in the bunched transaction will share transaction costs on a pro-rata basis based upon each client's participation in the transaction. The effect of bunching may operate on some occasions to a client account's advantage or disadvantage.

When initiating a new position, shares purchased in bunched transactions are generally allocated pro-rata relative to account assets among the clients for whom the stock is being purchased subject to adjustment for additional factors, including:

- cash availability within specific accounts,
- consideration of the minimum distribution of shares bought for an account,
- portfolio sector balancing, and
- building the percentage of assets invested in the stock in selected accounts.

Allocations may also reflect the judgment of the portfolio manager as to the specific needs of an account, such as raising cash.

Our portfolio managers generally establish an objective as to the amount of stock in a bunched order to be allocated to each client account, such position generally being expressed as a percentage of the assets in the client's account. The liquidity of some small cap stocks is limited, and the stock initially purchased at the target price may be insufficient to achieve the minimum position objective established by the portfolio manager. In addition, it may not be possible that enough additional stock may be purchased at the target price to achieve the portfolio manager's minimum position for each account. Therefore, in the portfolio manager's sole discretion, shares of a purchased block may be allocated randomly among accounts with each selected account being allocated the minimum percentage position prior to shares being allocated to another account. Random allocation may also be used to allocate small positions obtained in initial public offerings or Limited Issuance positions. This may result in some accounts not receiving any portion of the stock purchased in a bunched transaction, an initial public offering or a Limited Issuance. This random allocation is done automatically through the trade order management software system. If an account receives only a portion of the minimum percentage position set by the portfolio manager, the trader may manually allocate shares purchased in subsequent block trades to fill the minimum percentage position.

Shares allocated in accordance with these procedures are priced based on the average price of the executions as reported to us by the broker-dealer through whom the securities were purchased or sold.

In cases where trading or investment restrictions are placed on a client's account, our traders may not be able to aggregate that client's transaction with others. In this case the client may pay a higher commission rate and/or receive less favorable prices than clients who are able to participate in an aggregated order.

When placing orders to buy or sell a security for all accounts pursuing a specific strategy, we typically cluster all impacted clients into one of two categories:

1. accounts that grant us discretion in selecting how to execute trades ("freely traded"); and
2. accounts that have directed us to use specified broker-dealers, including wirehouse consulting accounts where trades are normally placed through the sponsoring broker ("fully directed").

In the absence of unique circumstances, all freely traded accounts are generally traded together and each broker-dealer with which fully directed accounts are traded, are generally traded together. With the exception of the Select accounts, Select SRI accounts, Small Cap Core accounts, Small Cap Fundamental Growth accounts, Mid Cap Value accounts, and Micro Cap accounts, the trader will make best efforts to trade freely traded and fully directed accounts simultaneously to obtain the least disparity among accounts.

An exception exists for accounts in the Select and Select SRI strategies, trades for which are rotated between each strategy. All Select SRI accounts are freely traded and, in the absence of unique circumstances, are executed together. Each Select account is generally included in one of two groups:

- ***Freely traded accounts:*** Frequently, although not always, trading in the same one or more securities will be completed for all of these accounts together.

- ***Fully directed accounts and wirehouse consulting accounts (“Select FDWC Accounts”):***
  - Each broker-dealer represented among the Select FDWC Accounts will have its own spot in the trade rotation for Select FDWC Accounts.
  - Some broker-dealers with more than one program or platform may have more than one spot in the Select FDWC Account trade rotation.

Once it is the Select strategy’s turn to trade, trades are rotated as determined by the portfolio manager, in his discretion, among respective spots (representing both freely traded and FDWC accounts) within the Select trading rotation. Trades within a particular spot in the rotation, in the portfolio manager’s discretion, are also rotated among the Select accounts falling within that classification. The portfolio manager will sequence the trades when he believes that the order placed will be filled by the end of each trading day.

An exception also exists for accounts in the Small Cap Core strategy where the client has instructed us to direct its trades to a specific broker-dealer, such as the broker-dealer the client has selected to custody its account. We intend to trade such fully directed accounts after all trading in the same one or more securities has been completed for all the freely traded accounts, although each broker-dealer represented among the fully directed accounts will have its own spot in the trading rotation for fully directed accounts. While not always the case, trades executed after other clients’ trades (including larger bunched orders) may be executed at less favorable prices than those obtained in the earlier orders. Except in rare circumstances, such transactions will not be bunched with the trades of other accounts in the Small Cap Core strategy. Clients may direct us to “step out” transactions; however, fees imposed on these types of trades by a client’s selected broker-dealer will more than likely be cost-prohibitive. We will not be able to negotiate commissions for clients directing their trades to a specific broker-dealer and, therefore, the clients’ commissions may be higher than those charged on freely traded orders. In addition, we will not be able to provide assurances that these clients will receive best execution at their selected broker-dealer(s).

An exception also exists for accounts in the Small Cap Fundamental Growth (sometimes hereinafter referred to as “SCFG”) strategy which includes:

- ***Freely traded accounts:*** Generally, trading in the same one or more securities will be completed for all of these accounts first – before any other types of SCFG accounts are traded.
- ***Fully directed accounts and wirehouse consulting accounts (“SCFG FDWC Accounts”):***
  - Generally, SCFG FDWC Accounts will be traded after all trading in the same one or more securities has been completed for all of the SCFG freely traded accounts.
  - However, each broker-dealer represented among the SCFG FDWC Accounts will have its own spot in the trade rotation for SCFG FDWC Accounts.
  - Some broker-dealers with more than one program or platform may have more than one spot in the SCFG FDWC Account trade rotation.



While not always the case, trades executed after other clients' trades (including larger bunched orders) may be executed at less favorable prices than those obtained in the earlier orders. Except in rare circumstances, such transactions will not be bunched with the trades of other accounts in the Small Cap Fundamental Growth strategy. Clients may direct or allow us to "step out" transactions; however, fees imposed on these types of trades by a client's selected broker-dealer may be cost-prohibitive. We will not be able to negotiate commissions for clients directing their trades to a specific broker-dealer and, therefore, the clients' commissions may be higher than those charged on freely traded orders (although commissions may also be included as part of an overall wrap or other bundled fee). In addition, we will not be able to provide assurances that these clients will receive best execution at their selected broker-dealer(s).

An exception also exists for accounts in the Mid Cap Value (sometimes hereinafter referred to as "MCV") strategy which includes:

- ***Freely traded accounts:*** Generally, trading in the same one or more securities will be completed for all of these accounts first – before any other types of MCV accounts are traded.
- ***Fully directed accounts and wirehouse consulting accounts ("MCV FDWC Accounts"):***
  - Generally, MCV FDWC Accounts will be traded after all trading in the same one or more securities has been completed for all of the MCV freely traded accounts.
  - However, each broker-dealer represented among the MCV FDWC Accounts will have its own spot in the trading rotation for MCV FDWC Accounts.
  - Some broker-dealers with more than one program or platform may have more than one spot in the MCV FDWC Account trade rotation.
- ***Unified managed accounts ("UMAs") for which KCM provides a Mid Cap Value model ("Mid Cap Value UMA Model") to one or more UMA Sponsors.***
  - KCM neither places nor executes security transactions for UMAs; KCM also does not assume any fiduciary duties associated with clients who establish UMA accounts with UMA sponsors, or in connection with transactions executed on behalf of those clients by the UMA sponsor.
  - Generally, each UMA Sponsor may choose whether or not to implement the changes to the model provided by KCM.
  - Typically, KCM will provide updates to the MCV UMA Model for each of the MCV UMA Sponsors after all trading for the MCV freely traded accounts and MCV FDWC Accounts, as well as for any other non-UMA KCM accounts (in any KCM strategy) trading the same names held and/or traded (or to be held and/or traded) in the MCV Model, in the same one or more securities has been completed.
    - However, each MCV UMA Sponsor will have its own spot in the trade rotation for MCV UMA Sponsors.

- Also, some MCV UMA Sponsors with more than one program or platform may have more than one spot in the trade rotation for MCV UMA Sponsors.
- To the extent that the same one or more securities is/are being or will be held and/or traded in UMA Models for more than one KCM strategy, whether in the same or another program or platform, each of the UMA Models in each of these programs or platforms shall have its own spot in the KCM Multi-Strategy UMA Model Rotation.

While not always the case, trades executed after other clients' trades (including larger bunched orders) may be executed at less favorable prices than those obtained in the earlier orders. Except in rare circumstances, such transactions will not be bunched with the trades of other accounts in the Mid Cap Value strategy. Clients may direct or allow us to "step out" transactions; however, fees imposed on these types of trades by a client's selected broker-dealer may be cost-prohibitive. We will not be able to negotiate commissions for clients directing their trades to a specific broker-dealer and, therefore, the clients' commissions may be higher than those charged on freely traded orders (although commissions may also be included as part of an overall wrap or other bundled fee). In addition, we will not be able to provide assurances that these clients will receive best execution at their selected broker-dealer(s).

With respect to the model portfolio programs, or platforms, pursuant to instructions from each UMA Sponsor, KCM communicates each respective UMA Model (or, as the case may be, changes thereto) to the Sponsors or their designated overlay managers ("Overlay Managers"). These Sponsors or Overlay Managers generally retain investment and brokerage discretion with respect to the UMA Model provided to them depending on the sub-advisory agreement.

An exception also exists for accounts in the Micro Cap strategy which includes:

- ***Freely traded accounts:*** Generally, trading in the same one or more securities will be completed for all of these accounts first – before any other types of Micro Cap accounts are traded.
- ***Fully directed accounts and wirehouse consulting accounts ("Micro Cap FDWC Accounts"):***
  - Generally, Micro Cap FDWC Accounts will be traded after all trading in the same one or more securities has been completed for all of the Micro Cap freely traded accounts.
  - However, each broker-dealer represented among the Micro Cap FDWC Accounts will have its own spot in the trading rotation for Micro Cap FDWC Accounts.
  - Some broker-dealers with more than one program or platform may have more than one spot in the Micro Cap FDWC Account trade rotation.

While not always the case, trades executed after other clients' trades (including larger bunched orders) may be executed at less favorable prices than those obtained in the earlier orders. Except in rare circumstances, such transactions will not be bunched with the trades of other accounts in the Micro Cap strategy. Clients may direct or allow us to "step out" transactions; however, fees imposed on these types of trades by a client's selected broker-dealer may be cost-prohibitive. We will not be able to negotiate commissions for clients directing their trades to a specific broker-dealer and, therefore, the clients'



commissions may be higher than those charged on freely traded orders (although commissions may also be included as part of an overall wrap or other bundled fee). In addition, we will not be able to provide assurances that these clients will receive best execution at their selected broker-dealer(s).

### ***Liquidations of Existing Positions Upon Transition to KCM***

Generally, securities deposited into your account will be liquidated if the portfolio manager, in his/her sole discretion, believes the securities are not consistent with the investment strategy. The cash resulting from the liquidations will be re-allocated according to the KCM strategy you have selected. A client's tax consequences are generally not considered when liquidating securities deposited into an account managed by KCM.

### ***How Withdrawals and Small Deposits are Traded for Fiduciary Services Accounts***

When you make a withdrawal from or a small deposit to your account participating in the Fiduciary Services program, we will generally place trades in the following manner:

#### ***Cash Withdrawal Requests***

At the time you make a withdrawal request from your Fiduciary Services account, no securities will be sold if the cash is readily available in your account. Immediately after the withdrawal, your account cash level may be lower than that of the other accounts in the strategy.

Sale transactions will only be executed in your Fiduciary Services account if the withdrawal generates a negative or near negative cash level. Otherwise, in order to bring your account's cash level back in-line with the other accounts in the strategy, sale transactions will be executed at the time a sale transaction will affect multiple client accounts in the Fiduciary Services program at once. This is because a relatively small amount of shares are involved for each of the securities in the accounts.

#### ***Deposits of Cash***

When you make a cash deposit to your account that causes your account cash level to exceed 10% of its total account market value, we will generally invest the cash upon our receipt of the notification of the deposit.

We define a small deposit as a deposit that results in the cash level of your account remaining under 10% of your account's total market value. When you make a small cash deposit to your account resulting in the cash level of your account remaining under 10% of its total account market value, we will generally invest the cash at the time when other accounts in the strategy are also making purchases. It is possible that your cash deposit may not be invested until another client makes a deposit that causes their account's cash level to exceed 10% of that account's total market value. At such time, all Fiduciary Services accounts with cash levels not in-line with the strategy may be invested concurrently. With a small cash deposit, it is important to note that a period of time may elapse from the time the cash is deposited into the account to the time that the cash is invested by KCM. Fiduciary Services accounts with security restrictions may contain cash levels that are higher than other Fiduciary Services accounts.

## REVIEW OF ACCOUNTS

### *Frequency and Nature of Reviews*

It is your responsibility to notify us of any changes in your investment objectives and/or financial situation. We encourage you to review investment objectives and account performance with us on an annual basis. We offer to schedule at least one meeting per year with you to review account performance and investment objectives. We believe these meetings, which may be held at our client's office, our office, or via telephone conference, are important in aligning our individualized portfolio strategy with our client's investment needs.

Portfolio managers are responsible for constructing and maintaining the investment allocation of their strategies. The portfolio manager is responsible for the day-to-day supervision of your account as well as the review of the securities held in their managed strategy or strategies to determine the likelihood that assets held will continue to achieve the expected investment objective. Account reviews are designed to ensure that transactions for client accounts are consistent with each client's specific investment objectives as indicated in the client's advisory agreement and additional instructions to us. Matters generally reviewed include specific guidelines, if any, and the performance of the account on a year-to-year basis.

The Investment Policy Committee performs a periodic assessment of the investment decisions implemented by each portfolio manager. The matters reviewed include (but are not limited to) diversification, portfolio composition, performance, and factor characteristics relative to the identified benchmarks.

Cash, account holdings and share quantities are reviewed monthly against custodial statements by the operations department. Data feeds from many of our clients' selected custodians are obtained through a third party, and are used to compare custodial data to our client account records as frequently as daily. We expect that our clients will agree to support KCM's efforts to arrange for one or more electronic connections to your custodian's recordkeeping systems including, where available, both access to your custodian's external manager portal as well as an information link or data feed between our portfolio accounting system and your custodian. You may request that KCM not maintain electronic connections to your custodian's data. This request must be received in writing. In addition, you should understand that lacking this data feed(s) will severely inhibit KCM's ability to maintain accurate records for your account.

In some instances, variances may exist between final audited custodial information and the information we obtain via such data feeds. All variances are typically reconciled to the applicable account no later than each month-end. Additional reconciliation or client specific reconciliation worksheets are completed for certain clients upon request.

The overall performance of each strategy is reviewed on a monthly/quarterly basis.

Additionally, many of our clients engage third-party consultants to assist with monitoring performance, stated objectives and risk tolerance.

### ***Factors that Trigger a Non-Periodic Review***

Daily compliance checks are applied both pre-trade and post-trade electronically through the order management system to determine compliance with specific client guidelines. Alerts are brought to the attention of the compliance department and if necessary are reviewed in more detail by the portfolio manager and trader. Additionally, the compliance department conducts daily trade surveillance on a post-trade basis to review allocations, pricing, cash levels, foreign holdings, and security position weightings, among other things. Discrepancies are researched to understand the cause and to determine if any changes or corrective actions are needed. A more thorough analysis is undertaken periodically to determine that investments in accounts are consistent with objectives and the client's identified restrictions.

Events that may trigger a review include client requests, a change in a client's financial objectives, and significant world, economic or market events.

### ***Content and Frequency of Regular Reports Provided to Clients***

The nature and frequency of reports are determined by the particular needs of each client. Generally, reports are furnished no less than quarterly. We will furnish reports on a more frequent basis if requested. Reports typically summarize investments in the client's account, including an inventory of account holdings with corresponding market values, a summary of executed transactions, the percentage of each security held relative to the total account, along with account performance. Performance is compared to the appropriate Russell index and other relevant benchmarks, where applicable. You may also receive from us periodic letters and commentaries discussing the outlook for the markets and your portfolio. Additional reports may be provided upon request.

You may request to receive transaction confirmation notices directly from the broker-dealer executing the transactions in your account. You should also verify that your qualified third-party custodian or broker-dealer (where your account is maintained, referred to hereinafter as your custodian) is providing statements to you no less than quarterly as such reports are the official records for your account. We encourage you to compare the information included with our account statements to the information reflected in the statements you receive directly from your custodian. Our statements may vary from custodial statements based on accounting procedures, reporting dates, or valuation methodologies of certain securities and are not intended to replace the custodial account statements as records for official or tax reporting purposes. Your custodian is required to maintain important tax information, reports such information to the IRS and should be consulted to obtain account tax records. Please consult with your tax advisor to interpret and use the information contained in any report received from either your custodian or us; we do not provide tax advice.

You should receive at least quarterly statements from the broker-dealer, bank or other qualified third-party custodian that holds and maintains your investment assets. It is your responsibility to confirm the frequency of account statements directly with your custodian. These statements are considered to be the actual books and records of your account and should be reviewed carefully. KCM receives a duplicate copy of statements sent to clients. This duplicate copy is used to conduct reconciliation for trading, cash flows, fees, security positions and other changes. We encourage you to carefully review such statements and compare such official custodial records to the account statements that we may provide to you. Our

statements may vary from custodial statements based on accounting procedures, reporting dates, or valuation methodologies of certain securities.

Additionally, investors in the KCM Small Cap Core Fund, LLC and the KCM Mid Cap Value Fund, LLC receive an annual K-1 and a copy of the annual Fund audit.

Wrap program relationships authorize us to offer continuous investment management services to wrap program clients. For wrap program and model portfolio program accounts, KCM reviews these accounts on a regular basis for conformity with the model. These clients generally receive portfolio holdings and performance reports from the Sponsor. KCM may provide reports to Sponsors that are not regularly sent to clients regarding performance, portfolio holdings and other portfolio information. Unless specifically requested by the Sponsor, KCM generally does not provide statements or one-on-one presentations to these clients. The Sponsor is the client's primary contact.

## **CLIENT REFERRALS AND OTHER COMPENSATION**

### ***Economic Benefits Provided by Third Parties for Advice Rendered to Clients***

Our revenues are derived from advisory fees. Our employees may from time to time give or receive gifts to or from clients, broker-dealers, and other unaffiliated third parties. Additionally, our employees may host a client, broker-dealer, and/or unaffiliated third party or be the recipient of entertainment provided by a client, broker-dealer, and/or other unaffiliated third party. We maintain a gift and entertainment policy that limits gifts and entertainment that employees may receive without approval to \$250 and requires internal reporting of any gifts valued at \$10 or greater. Neither KCM, nor our employees, receive sales awards or other prizes, directly or indirectly from any third party as an incentive for providing advice to our clients.

### ***Compensation to Non-Advisory Personnel for Client Referrals***

From time to time we may compensate persons not affiliated with us for client solicitation and referral. We have an agreement with certain brokerage firms under which the broker-dealer may solicit clients.

We may enter into contractual arrangements with non-affiliated individuals or firms ("solicitor") to solicit on our behalf and to refer clients to us. The arrangements are made in writing pursuant to Rule 206(4)-3 under the Act. Our agreements with any such solicitors require that clients receive disclosure of such solicitation and client referral activities as provided by Rule 206(4)-3. The solicitor must, at the time of his solicitation, provide the client with a copy of this Brochure and must also provide the client with a separate document describing the solicitation arrangement, disclosing any affiliation between KCM and the solicitor, the compensation for solicitation, and whether advisory fees for solicited clients are higher than those for other clients due to compensation paid to the solicitor.

In some circumstances, payments to third party solicitors may create an incentive for the solicitor to recommend to their clients our advisory services.

Benefits may be received from external sources in the form of services made available to us and other independent investment advisers. The benefit is the availability to us of an external source's products and

services in the form of online search tools that provide means for prospective investors to search for investment advisers and to obtain additional information and is not based on our offering particular investment advice.

### **Hewitt Financial Services LLC**

KCM has established a relationship with Hewitt Financial Services LLC to provide certain information to prospective investors through an internet portal site regarding KCM's investment strategies to defined contribution plans administered by an affiliate of Hewitt Financial Services LLC. KCM does not receive any economic benefit from this service and this is not a service that KCM uses for prospective client referrals. KCM does pay an asset-based fee for being able to include our information in the database.

## **CUSTODY**

We do not accept physical custody of your assets, including the receipt of securities, cash or checks at any time. However, pursuant to Rule 206(4)-2 under the Act, KCM may be viewed for regulatory purposes as having custody of certain client assets due to:

- KCM's ability to deduct management fees directly from certain client accounts, and/or – the ability to instruct custodians to withdraw the amount of the management fees from a client's account. KCM is given the authority to receive payment of its management fees directly from the account but is not authorized to make any other withdrawals or to transfer money out of the account to a third party.
- KCM's role as the manager of the KCM Small Cap Core Fund, LLC and the KCM Mid Cap Value Fund, LLC (collectively "the Funds").

With the exception of the Funds, the decision to select a qualified third-party custodian remains solely with you. You must contract directly with your selected qualified third-party custodian or registered broker-dealer for custodial services. Wrap accounts, directly managed accounts, unified managed accounts, similarly named arrangements or accounts participating in a model program will be held by the Sponsor of the program. Clients participating in these programs should refer to the Sponsor's program brochure and agreements for information regarding custodial arrangements.

### **KCM Small Cap Core Fund, LLC and KCM Mid Cap Value Fund, LLC**

If you are invested in either of the Funds, UMB Bank, N.A. serves as custodian and will maintain custody of the assets of the Funds. UMB Bank, N.A. is a national bank subject to the jurisdiction of the Office of the Comptroller of the Currency and is a qualified third-party custodian. KCM has also entered into an agreement with UMB Fund Services, Inc. Services performed by UMB Fund Services, Inc. include (but are not limited to) executing purchases and redemptions of interests of the Funds, determining the net asset value per unit of the Funds in accordance with generally recognized valuation procedures, various recordkeeping functions and generating periodic fund statements.

## INVESTMENT DISCRETION

Discretion means we may make investment decisions without consulting you first, regarding the selection of securities to buy or sell, the amount of securities to buy or sell, the broker-dealer to use, and the commission rates to pay, subject to reasonable investment objectives and guidelines that are generally established by an advisory agreement at the time of account inception. Prior to assuming discretionary authority, an investment advisory agreement will be executed. By signing the advisory agreement, discretionary investment authority over your account per the terms of the advisory agreement is granted to us. The advisory agreement grants us authorization to provide instructions to your custodian regarding the investment decisions for the purchase, sale, conversion, redemption, exchange or retention of any security, cash, or cash equivalent or other investment for your account.

We do not accept responsibility for the active management of your account, unless and until, we have received written verification from your custodian (in a form acceptable to us) of the amount and nature of the assets held in your account. We shall have no liability based upon estimates of market gain or loss, or otherwise, for the failure to commence investment of your account until we have received such written verification from your custodian. It is your responsibility to instruct your custodian to provide such information to us.

Wrap fee programs as outlined in the section entitled *Advisory Business*, authorizes us to offer continuous investment management services to wrap accounts. Generally, each wrap account client enters into an agreement with a Sponsor, and in turn the Sponsor has a separate investment advisory agreement with us. With certain limited exceptions, we generally maintain discretion as to which securities shall be purchased or sold in a wrap program account in a manner consistent with the client's selected strategy, investment objectives, policies and any reasonable restrictions. In order to avoid incurring the incremental costs created by using other broker-dealers, transactions for wrap program clients are typically executed through the wrap program sponsor. In most cases, as part of the wrap program arrangement, we have been directed to execute orders with the wrap program sponsor.

Additionally, as outlined in the section entitled *Advisory Business*, KCM may enter into a non-discretionary arrangement in which a model portfolio of securities is provided to a Sponsor. The Sponsor is then responsible for executing transactions to establish and maintain the portfolio according to our model as provided.

Generally, it is our policy to not accept unsupervised assets. An unsupervised asset is an asset managed by you, the client.



## VOTING CLIENT SECURITIES

### *Clients That Provide Proxy Voting Authority to KCM*

We will accept authority from you to vote your proxies and will vote according to our proxy policy as outlined below.

Rule 206(4)-6 and amendments under the Act, which became effective August 6, 2003, are designed to ensure that investment advisers fulfill their fiduciary obligation when voting client proxies. Disclosure requirements include:

- (i) investment advisers that exercise proxy voting authority for clients must describe the firm's proxy policies and procedures, and upon request, provide clients with a copy of those policies and procedures; and,
- (ii) advisers must describe how clients may obtain information on how their securities were voted.

We generally vote proxy ballots for our clients using a proxy voting service to help fulfill our voting obligations, although some clients may choose to retain voting responsibility. Unless otherwise instructed by you, we will undertake to vote proxies for your account. We must make proxy voting decisions solely in the best interests of our clients and will place our clients' interests above our own interests.

Broadridge Investor Communication Solutions, Inc. ("Broadridge") has been retained to provide access to a selection of third-party providers who are available to provide proxy vote recommendations and research. Generally, votes are cast through the Broadridge ProxyEdge® platform ("ProxyEdge®") which provides access to proxy voting recommendations and historical voting information. With the assistance of Broadridge, Glass, Lewis & Co. LLC ("Glass Lewis") has been selected to provide vote recommendations based on its own internal guidelines. The services provided to us by Glass Lewis include access to Glass Lewis' research, analysis and voting recommendations. Services provided to us through ProxyEdge® include reporting, auditing, recordkeeping and consulting assistance for the handling of proxy voting responsibilities.

You may select among two voting policies which are:

- **Standard Policy.** Generally voted in conformity with the Glass Lewis Proxy Paper™ Guidelines (the "Glass Lewis Guidelines"); or
- **Catholic Policy.** Generally voted in conformity with the Glass Lewis Catholic Policy, an addendum to the Glass Lewis Guidelines, based largely on the principles set forth by the United States Conference of Catholic Bishops.

The Standard Policy will be used for voting proxies for all clients that have delegated voting authority to us (both ERISA and non-ERISA) unless you specifically select the Catholic Policy.

When voting, we generally follow the recommendations of Glass Lewis. We may direct that proxies be voted in a manner different from that recommended by Glass Lewis. However, when our interests conflict with the interests of our clients, we will follow the recommendation of Glass Lewis.



Additionally, we may seek guidance from our Proxy Voting Committee to resolve material conflicts of interest.

You may elect to participate in a securities lending program through your selected custodian. Under typical securities lending arrangements, securities on loan to a borrower on a proxy record date may not be voted by the lender. Therefore, we will not vote securities that are on loan as the responsibility to vote proxies will typically reside with the borrower of the shares.

Although it is our policy to seek to vote all proxies for the securities held in your account(s) for which we have proxy voting authority, in the case of non-U.S. issuers proxies are voted on a best efforts basis. Generally, research coverage of non-U.S. issuers is issued through Glass Lewis. Voting recommendations are not always provided with research; therefore, ballots for non-U.S. issuers are generally voted according to the chosen policy.

A custodian may, in its discretion, determine that it will provide proxies to Broadridge for U.S. domestic companies, but not for foreign or global companies. Or, custodians may determine to provide proxies for non-U.S. companies to their selected proxy voting provider. In these instances, Broadridge is not able to vote non-U.S. proxies for your account.

It is within each custodian's discretion as to whether it will provide ballots to Broadridge for issuers whose stocks are held in your account. Instead, a custodian may select its own proxy voting provider and choose not to provide proxy ballots to Broadridge. In these instances, Broadridge is not able to vote proxies for your account and KCM will not be able to accept voting authority for your accounts.

When voting ballots, it is the custodian's discretion as to whether it will aggregate shares, held on behalf of its various clients, in an omnibus account instead of submitting individual ballots for segregated accounts. In these cases, custodians must rely on their own internal records to differentiate the various underlying holdings. In these instances, Broadridge will not be able to provide us with a detailed history of voting records at the individual client account level.

You may obtain a copy of our proxy voting policy and procedures or information on your voting history by writing Kennedy Capital Management, Inc., 10829 Olive Boulevard, St. Louis, MO, 63141.

### ***Clients That Retain Proxy Voting Authority***

If you do not grant us proxy voting authority, you may receive proxies and other solicitations directly from your custodian or a transfer agent. We are not able to provide advice on proxy voting issues when a client retains authority to handle such matters.

### ***Class Action Lawsuits***

From time to time, we may receive notification that securities held in your account may be the subject of a class action lawsuit. If you are an existing client, we will make our best efforts to determine if securities held by you in your custodial account are subject to a pending or resolved class action lawsuit. We will make our best efforts to evaluate your eligibility and, if eligible, we will submit a claim on your behalf to participate in the proceeds of a securities class action settlement or verdict. Eligibility is generally based on the accounts for which purchases and sales of the affected security were executed during the class

action period while under our management. However, if we do not receive the claim forms or other necessary documentation in a timely manner, we may not be able to file a claim on your behalf. Moreover, we will not submit claims for securities purchased by a prior manager as we will not have the transaction information pertaining to your account that is needed in order to file a proof of claim on your behalf. Generally, responsibility for submitting a claim for clients participating in a wrap account program or model program rests with the Sponsor, not with KCM.

You may instruct your selected custodian to file a class action claims for your account. If you have instructed your custodian or another third-party the responsibility of filing class action claims on your behalf, please advise us so that we do not duplicate any filings. If you instruct us not to file class action lawsuits on your behalf, we will forward to you on a best efforts basis any information we receive regarding class action legal matters for the securities held in your account.

Any payment received inadvertently by KCM as a result of filing a class action claim on behalf of a client will be returned to the sender. It is our policy that no payments shall be directly accepted by us on behalf of any client.

### ***Corporate Action Processing***

KCM receives notification of corporate actions directly from many of the custodians of our client's accounts. Corporate actions generally fall into the category of mandatory or voluntary.

In the case of voluntary corporate actions, KCM seeks the recommendation of the portfolio manager for an election decision. KCM will then make that election with the custodian who holds assets for clients.

KCM seeks to post all corporate actions, both mandatory and voluntary, to our accounting system, Advent APX, at the earliest available time. However, so that an unfair advantage is not provided to any specific client/clients, each corporate action will generally not be posted until KCM has verified the processing of such corporate action with all applicable custodians.

On an exception basis KCM may move forward with posting a corporate action for those clients whose custodians have processed them (even though not all applicable custodians have done so), for one or more of the following reasons, among others, in the portfolio manager's discretion: Most of KCM clients' custodians have already processed the corporate action, the custodian(s) for a majority of client assets under management in that strategy has/have already processed the corporate action and/or the custodian(s) that has/have not yet processed the corporate action is/are typically the last or one of the last custodian(s) to do so.

Clients who participate in a securities lending program may experience a delay in the posting of any or all of a corporate action due to shares on loan. Upon the receipt of confirmation from the custodian that the shares have been recalled, the corporate action will be processed.

KCM uses a variety of data sources, including the custodians, for verification of the terms of a corporate action and will follow-up with any custodian whose processing terms differ from those KCM believes to be accurate.

## FINANCIAL INFORMATION

### ***Balance Sheet***

We do not require prepayment of more than \$1,200 in fees per client, six months or more in advance; therefore, a balance sheet is not required to be included with this Brochure.

### ***Financial Conditions Reasonably Likely to Impair Ability to Meet Contractual Commitments to Clients***

We do not currently believe nor foresee any financial condition that is reasonably likely to impair our ability to meet our contractual commitments to clients.

### ***Bankruptcy Petitions in Previous Ten Years***

We have not been the subject of a bankruptcy petition in the last ten years.

## **EXHIBITS**

### **Exhibit A: Privacy Notice**

## Privacy Notice

### **FACTS** What does Kennedy Capital Management, Inc. (KCM) do with your personal information?

#### **Why?**

Financial companies choose how they share your personal information. Federal law gives consumers the right to limit some but not all sharing. Federal law also requires us to tell you how we collect, share, and protect your personal information. Please read this notice carefully to understand what we do.

#### **What?**

The types of personal information we collect and share depend on the product or service you have with us. This information can include:

- Information we receive from you or your authorized representative on investment advisory agreements, client information forms, or written correspondence (which includes email) – including, but not limited to, your name, address, phone number, tax identification number, assets, income, and date of birth
- Other information and documentation that we may collect from you to verify your identity
- Custodian account statements
- Information about your transactions with independent broker-dealers including, but not limited to, your account number and balance, cost basis information, and other financial information
- Investment experience and risk tolerance
- Information that we may receive from third parties

When you are *no longer* our client, we continue to share your information as described in this notice.

#### **How?**

All financial companies need to share clients' personal information to run their everyday business. In the section below, we list the reasons financial companies can share their clients' personal information; the reasons KCM chooses to share; and whether you can limit this sharing.

Reasons we can share your personal information	Does KCM share?	Can you limit this sharing?
<b>For our everyday business purposes</b> – such as to process your transactions, maintain your account(s), respond to court orders and legal investigations, or report to credit bureaus	<b>Yes</b>	<b>No</b>
<b>For our marketing purposes</b> – to offer our products and services to you	<b>No</b>	<b>We do not share</b>
<b>For joint marketing with other financial companies</b>	<b>No</b>	<b>We do not share</b>
<b>For our affiliates' everyday business purposes</b> – information about your transactions and experiences	<b>No affiliates</b>	<b>No affiliates</b>
<b>For our affiliates' everyday business purposes</b> – information about your creditworthiness	<b>No affiliates</b>	<b>No affiliates</b>
<b>For nonaffiliates to market you</b>	<b>No</b>	<b>We do not share</b>

## Privacy Notice

### **Who we are**

**Who is providing this notice?** Kennedy Capital Management, Inc. (KCM)

### **What we do**

#### **How does KCM protect my personal information?**

To protect your personal information from unauthorized access and use, we use security measures that comply with federal law. These measures include computer safeguards and secured files and buildings.

We take precautions to protect your information. We restrict access to your personal information to those employees who need to know that information in order to provide services to you. We also maintain physical, electronic and procedural safeguards to guard your personal information.

#### **How does KCM collect my personal information?**

We collect your personal information, for example, when you

- Enter into an advisory agreement
- Open an investment advisory account
- Provide your contact information

We also obtain information for the purpose of verifying your identity, proper execution of transactions, cost basis information, etc. We may also collect your personal information from other companies, such as, consultants, broker-dealers, and custodians.

#### **Why can't I limit all sharing?**

Federal law gives you the right to limit only

- Sharing for affiliates' everyday business purposes – information about your creditworthiness
- Affiliates from using your information to market to you
- Sharing for nonaffiliates to market to you

State laws and individual companies may give you additional rights to limit sharing.

## **Definitions**

### **Affiliates**

Companies related by common ownership or control. They can be financial and nonfinancial companies.

- *KCM does not have affiliated service providers or company relationships*

### **Nonaffiliates**

Companies not related by common ownership or control. They can be financial and nonfinancial companies.

- *Unaffiliated service providers include banking institutions and broker-dealers that may provide services at KCM's direction. KCM does not share with nonaffiliates so that they can market to you.*

### **Joint Marketing**

A formal agreement between nonaffiliated financial companies that together market financial products or services to you.

- *KCM does not jointly market products or services to its clients*