



KERNS
ACTIVATE YOUR PORTFOLIO

Item 1 – Cover Page

Part 2A of Form ADV

Firm Brochure

Date Prepared: March 21, 2017

This Brochure provides information about the qualifications and business practices of Kerns Capital Management, Inc. (“KCM”). If you have any questions about the contents of this Brochure, please contact us at (713) 993-0949 and/or KCM@KernsCapital.com. The information in this Brochure has not been approved or verified by the United States Securities and Exchange Commission or by any state securities authority.

Kerns Capital Management, Inc. is a registered investment adviser. Registration of an Investment Adviser does not imply any level of skill or training. The oral and written communications of an adviser provide you with information about which you determine to hire or retain an adviser.

Additional information about Kerns Capital Management, Inc. is also available on the SEC’s website at www.adviserinfo.sec.gov.

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Item 2 – Material Changes

This Brochure is an amendment to our Brochure dated January 8, 2016, which includes the following material change:

1. Martin Kerns and Parker Binion are now dually registered with Pensionmark Financial Group, LLC. Pensionmark provides retirement plan advisory services to qualified and non-qualified company retirement plans. Information about the qualifications and business practices of Pensionmark is available upon request and on the SEC's website at www.adviserinfo.sec.gov.
2. Items 5 and 7 have been amended to reflect KCM's new minimum annual fee and minimum account size, respectively
3. Item 6 has been updated to describe KCM's Performance-Based Fees
4. Item 12 has been updated to include Interactive Brokers Group, Inc. ("Interactive Brokers") as a recommended custodian

Pursuant to new SEC Rules, we will ensure that you receive a summary of any materials changes to this and subsequent Brochures within 120 days of the close of our business' fiscal year. We may further provide other ongoing disclosure information about material changes as necessary.

We will further provide you with a new Brochure as necessary based on changes or new information, at any time, without charge.

Currently, our Brochure may be requested by contacting Martin Kerns, President and Chief Compliance Officer, at (713) 993-0949 or Marty@KernsCapital.com. Our Brochure is also available on our website, www.KCMTX.com, free of charge.

Additional information about Kerns Capital Management, Inc. ("KCM") is also available via the SEC's website, www.adviserinfo.sec.gov. The SEC's website also provides information about any persons affiliated with KCM who are registered, or are required to be registered, as investment adviser representatives of KCM.

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Item 4 – Advisory Business

At Kerns Capital Management, we understand that financial markets can be both rewarding and devastating to a client's wealth, changing lives overnight. That's why we believe in active management; just because markets drop doesn't mean your portfolio must do the same. Founded in 1996, KCM specializes in the design and development of actively managed investment strategies, such as our flagship KCM Macro Trends Fund, which seek to produce more favorable risk-adjusted return than a buy and hold approach. Our clients include institutions, high net worth individuals, corporate pension plans and trusts.

Kerns Capital Management, Inc. ("KCM") is an independent, fee-based, SEC-Registered Investment Advisor. The firm was founded in 1996 by Lane Kerns. Martin Kerns acquired KCM in 2012 and is the firm's Chief Executive Officer, President and Chief Compliance Officer. He is the firm's sole shareholder.

Investment Advisory Services

KCM provides discretionary portfolio management.

Portfolio Management. KCM offers active money management services to individuals, mutual funds, hedge funds, trusts and foundations.

- a. **Investment Philosophy.** We believe strong long-term investment results and wealth are best achieved through the avoidance of major losses and the compounding of reasonable gains.
- b. **Investment Strategies.** We employ flexible investment strategies with the freedom to invest in all asset classes, long or short. We combine fundamental ("bottom-up") and technical ("top-down") analysis in seeking to profit from market trends, biases and the future expectations of companies, industries, regions and countries. We principally use stocks, bonds, exchange traded funds, and no load mutual funds in the management of client assets. Item 8 further describes our Methods of Analysis, Investment Strategies and Risks of Loss.
- c. **KCM Models Portfolios.** We offer several risk-tolerance based model portfolios, *i.e.*, stable, conservative, moderate and aggressive growth, for client selection and investment. We do not tailor our advisory services to the individual needs of clients. Clients generally may not impose restrictions on investing in certain securities or types of securities.

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- d. **KCM Macro Trends Mutual Fund.** KCM is the Investment Advisor to the KCM Macro Trends Fund, an investment company (“mutual fund”) registered under the Investment Company Act of 1940.
 - e. **KCM Managed Account Strategies.** KCM is the Investment Advisor to several managed account strategies including its Valarian investment strategies. These strategies are available via separate account.
 - f. **Sub-Advisory.** KCM provides trading signals to other investment management companies.
 - g. **Manage-It-For-Me.** We offer investment management services to 401(k) retirement plan participants through their plan’s brokerage window or tailored to the investment options in the plan’s core line up.

Retirement Plan Consulting. KCM may recommend retirement plan advisory services offered by Pensionmark Financial Group, LLC, an unaffiliated SEC registered investment adviser firm (“Pensionmark”), to both qualified and non-qualified company retirement plans. As discussed below, KCM’s President, in his individual capacity, is also an investment adviser representative of Pensionmark. Information about the qualifications and business practices of Pensionmark is available upon request and on the SEC’s website at www.advisoerinfo.sec.gov.

Miscellaneous Disclosures

No Financial Planning or Non-Investment Consulting/Implementation Services. KCM does not provide financial planning and related consulting services regarding non-investment related matters, such as estate planning, tax planning, insurance, etc. **Please Note:** KCM does not serve as an attorney, accountant, or insurance agency, and no portion of our services should be construed as legal, accounting, or insurance implementation services. Accordingly, we do not prepare estate planning documents, tax returns or sell insurance products. To the extent requested by a client, we may recommend the services of other professionals for certain non-investment implementation purposes (i.e. attorneys, accountants, insurance, etc). You are under no obligation to engage the services of any such recommended professional. The client retains absolute discretion over all such implementation decisions and is free to accept or reject any recommendation made by KCM or its representatives. **Please Note:** If the client engages any unaffiliated recommended professional, and a dispute arises thereafter relative to such engagement, the client agrees to seek recourse exclusively from and against the engaged professional.

Fee Differentials. As indicated below, KCM shall receive an investment advisory fee based upon a percentage (%) of the market value of the assets placed under management (between 0.5% to 2.5%). However, fees shall vary depending upon various objective and subjective factors, including but not limited to: the representative assigned to the account, the amount of assets to be invested, the complexity of the engagement, the anticipated number of meetings and servicing needs, related accounts, future earning capacity, anticipated future additional assets, and negotiations with the client. As a result, similar clients could pay different fees, which will correspondingly impact a client's net account performance. Moreover, the services to be provided by KCM to any particular client could be available from other advisers at lower fees. All clients and prospective clients should be guided accordingly.

Retirement Rollovers-Potential for Conflict of Interest: A client or prospective client leaving an employer typically has four options regarding an existing retirement plan (and may engage in a combination of these options): (i) leave the money in the former employer's plan, if permitted, (ii) roll over the assets to the new employer's plan, if one is available and rollovers are permitted, (iii) roll over to an Individual Retirement Account ("IRA"), or (iv) cash out the account value (which could, depending upon the client's age, result in adverse tax consequences). If KCM recommends that a client roll over their retirement plan assets into an account to be managed by KCM, such a recommendation creates a conflict of interest if KCM will earn an advisory fee on the rolled over assets. **No client is under any obligation to roll over retirement plan assets to an account managed by KCM. KCM's Chief Compliance Officer, Martin Kerns, remains available to address any questions that a client or prospective client may have regarding the potential for conflict of interest presented by such rollover recommendation.**

Cash Positions. At any specific point in time, depending upon perceived or anticipated market conditions/events (there being no guarantee that such anticipated market conditions/events will occur), KCM may maintain cash positions for defensive purposes. All cash positions (money markets, etc.) shall be included as part of assets under management for purposes of calculating KCM's advisory fee.

Client Obligations. In performing its services, KCM shall not be required to verify any information received from the client or from the client's other professionals, and is expressly authorized to rely thereon. Moreover, each client is advised that it remains their responsibility to promptly notify KCM if there is ever any change in their financial situation or investment objectives for the purpose of reviewing, evaluating or revising KCM's previous recommendations or services.

Disclosure Statement. A copy of KCM's written Brochure as set forth on Part 2 of Form ADV shall be provided to each client prior to, or contemporaneously with, the execution of the Agreement.

As of February 28, 2017, KCM manages client assets of \$180,430,495 on a discretionary basis.

Item 5 – Fees & Compensation

KCM charges fees for its investment advisory services that are based on a percentage of the client's total assets under management. Fees are negotiable and therefore may vary by client.

Investment Management

KCM's annual investment management fee can range from 0.5% to 2.5%, with a minimum annual fee of \$2,500. **Please Note:** KCM, in its sole discretion, may charge a lesser investment management fee and/or waive or reduce its minimum annual fee based upon certain criteria (i.e. anticipated future earning capacity, anticipated future additional assets, dollar amount of assets to be managed, related accounts, account composition, negotiations with client, etc.)

KCM's management fee depends on the strategy selected, size of the account (assets under management), type of asset class (i.e., stocks, bonds, cash), securities used (i.e., stocks, bonds, mutual funds, exchange traded funds, cash, etc.) and the amount of predicted time devoted to the management process. Fee amounts, including minimum fees, may also differ due to the type of account held by the client, *e.g.*, standard brokerage account vs. company 401(k) retirement account.

As discussed above, assets invested in money market funds and cash are subject to KCM's management fee.

Investment Advisory Agreement

The specific manner in which fees are charged by KCM is established in the client's written investment advisory agreement with KCM.

KCM bills fees on a monthly or quarterly basis in arrears. KCM's fee is based on the total value of the account on the last day of the management period. Fees are deducted from the client's account whenever possible.

Accounts initiated or terminated during the billing period will be charged a prorated fee. Upon termination of any account, any prepaid, unearned fees will be promptly refunded,

and any earned, unpaid fees will be due and payable. The client has the right to terminate an agreement without penalty within five business days after entering into the agreement.

KCM's fees are exclusive of brokerage commissions, transaction fees, and other related costs and expenses which shall be incurred by the Client. Clients may incur certain charges imposed by custodians, brokers, third party investment and other third parties such as fees charged by managers, custodial fees, deferred sales charges, odd-lot differentials, transfer taxes, wire transfer and electronic fund fees, and other fees and taxes on brokerage accounts and securities transactions. Mutual funds and exchange traded funds also charge internal fees, which are disclosed in a fund's prospectus. These charges, fees and commissions are exclusive of and in addition to KCM's fee, and KCM shall not receive any portion of those commissions, fees, and costs, except as relating to the KCM Macro Trends Fund.

KCM is the Investment Advisor to the KCM Macro Trends Fund ("the Fund") and receives a management fee for its advisory services. KCM may elect to invest all or a significant portion of a client's assets in this fund, in which case any management fee received on a client's assets invested in the Fund, less custodial expenses incurred by KCM, will be applied to reduce KCM's management fee charged the Client.

Item 12 further describes the factors that KCM considers in selecting or recommending broker-dealers for client transactions and determining the reasonableness of their compensation (*e.g.*, commissions).

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

KCM may charge performance-based fees to clients who have at least \$1,000,000 in portfolio assets managed by the firm, or who together with their spouse have a net worth of at least \$2,100,000 excluding principal residence. Clients are advised that performance-based fees involve a sharing of any portfolio gains between the client and the investment manager. Such performance-based fees create an economic incentive for KCM to take additional risks in the management of a client portfolio that may be in conflict with the client's current investment objectives and tolerance for risk. No performance-based fees will be assessed until the portfolio, on a cumulative basis from account inception, is in a net gain position.

Performance-based fees are in addition to the asset-based fees detailed in Item 5 of this Brochure. Clients are also advised that as a result of the standard asset-based fee and the performance-based fee, the investment manager has an economic incentive to recommend a performance-based fee structure.

Performance-based fees may only be offered to clients who meet one of the following criteria:

- A natural person who or a company that immediately after entering into the contract has at least \$1,000,000 under the management of the investment adviser
- A natural person who or a company that the investment adviser entering into the contract (and any person acting on his behalf) reasonably believes, immediately prior to entering into the contract, either:
 - Has a net worth (together, in the case of a natural person, with assets held jointly with a spouse, excluding principal residence) of more than \$2,100,000, at the time the contract is entered into; or
 - Is a qualified purchaser as defined in section 2(a)(51)(AA) of the Investment Company Act of 1940 (15 U.S.C. 80a-2(51)(A)) at the time the contract is entered into; or
- A natural person who immediately prior to entering into the contract is:
- An executive officer, director, trustee, general partner, or person serving in similar capacity of the investment adviser; or
- An employee of the investment adviser (other than an employee performing solely clerical, secretarial, or administrative functions with regard to the investment adviser) who, in connection with his or her regular functions or duties, participates in the investment activities of such investment adviser, provided that such employee has been performing such functions and duties for or on behalf of the investment adviser, or substantially similar functions or duties for or on behalf of another company for at least 12 months.

Item 7 – Types of Clients

KCM provides services to individuals, mutual funds, hedge funds, trusts and foundations,

To open an account with us for individual portfolio management services, we typically require a minimum account size of \$500,000. We will aggregate client accounts for purposes of this requirement.

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

Methods of Analysis & Investment Strategies

KCM employs flexible investment strategies in the management of client assets, meaning we have the freedom to invest globally in companies of all sizes and in all sectors, long or short, fixed income securities, and to hold cash.

KCM invests principally in open ended, no load mutual funds (mutual funds), domestic and foreign equity securities (common stock), and exchange traded funds ("ETFs").

The goal of all KCM strategies is long-term growth of capital. As a secondary goal, KCM's strategies seek to manage volatility and market risk.

We utilize all or parts of a multi-faceted approach in managing assets, including fundamental and technical analysis, depending on the strategy selected.

We generally begin with economic analyses to determine the phase of the business cycle for each major global market segment (a "Segment"). Examples of Segments include the U.S., Europe, Asia and Latin America. Using research and analyses we rank the Segments to determine the market's direction, *i.e.*, "uptrend," "downtrend" or "trading range", and the momentum of the direction. We adjust market exposure depending on how clearly our research reflects the market's direction.

Our next step is to identify individual sectors and/or securities in attractive Segments. We base our investment decisions on a wide array of fundamental and technical factors. Fundamental factors include but are not limited to measures such as earnings growth, return on capital, dividend yield and free cash flow. Technical factors include measures such as price performance, volatility, breadth and trading volume.

As a part of our investment strategy and during periods in which we have limited market exposure, we may invest in money market funds or other short-term interest-bearing instruments.

KCM Macro Trends Fund

KCM is the Investment Advisor to the KCM Macro Trends Fund ("the Fund"). KCM may elect to invest all or a significant portion of a client's assets in this fund. The Fund employs the investment strategies described. The term "macro" in the Fund's name refers to its focus on the broad macroeconomic environment. A macro strategy focuses on broad trends and is generally distinguished from a strategy that focuses on the prospects of particular companies or issuers. We attempt to control risk by owning a large number of securities, selling securities held long that are in or are about to enter into a down trend, and by conducting hedging from time to time using inverse ETFs.

If we believe the overall market is overvalued and/or technically vulnerable to a decline, or if we cannot find a sufficient number of stocks with near term appreciation potential, we have the discretion to move all or a portion of the Fund's assets into fixed income securities, including cash, in order to take a more defensive position. The fixed income securities will generally be investment grade cash equivalents with maturities under 91 days.

The Fund may also be net short during periods KCM anticipates declining market conditions. We employ these additional strategies within in the Fund, as opposed to individual accounts, to minimize trading costs and avoid investment minimums.

Separately Managed Accounts

KCM is the Investment Advisor to several managed account strategies, including the Valarian investment strategies. These strategies employ many of the same technical strategies described above, although the Valarian strategies only in ETFs and do not consider foreign equities. More detail about each of these strategies may be found at our website KCMTX.com.

Risk of Loss

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

Mutual Fund & Exchange Traded Fund Risk. There are specific risks involved in the management of mutual funds and Exchange Traded Funds (collectively "funds") which are described in detail in their prospectus. Each fund exposes KCM's strategies to the strategy-specific risk of that fund and the value of your portfolio will fluctuate in response to the performance of the funds in which your account is invested.

Market Risk. Stock markets can be volatile. In other words, the prices of stocks can fall rapidly in response to developments affecting a specific company or industry, or to changing economic, political or market conditions. Investments may decline in value if the stock markets perform poorly. There is also a risk that the investments will underperform either the securities markets generally or particular segments of the securities markets.

Portfolio Turnover Risk. Portfolio turnover refers to the rate at which investments are replaced. The higher the rate, the higher the transactional and brokerage costs associated with the turnover which may reduce the return, unless the securities traded can be bought and sold without corresponding commission costs. Active trading of securities may also increase your realized capital gains or losses, which may affect the taxes you pay.

Foreign Risk. Foreign markets can be more volatile than the U.S. market due to increased risks of adverse issuer, political, regulatory, market, or economic developments and can perform differently from the U.S. market. Special risks associated with investments in foreign companies include exposure to currency fluctuations, less liquidity, less developed or less efficient trading markets, lack of comprehensive company information, political instability and differing auditing and legal standards.

Small and Medium-Size Company Risk. Small and medium size companies may have narrower markets and more limited managerial and financial resources than do larger, more established companies. As a result, their performances can be more volatile and they may face a greater risk of business failure.

Issuer-Specific Risk. The value of a specific security can be more volatile than the market as a whole and can perform differently from the value of the market as a whole. The value of securities of smaller issuers can be more volatile than that of larger issuers. The value of certain types of securities can be more volatile due to increased sensitivity to adverse issuer, political, regulatory, market, or economic developments.

Short Selling Risk. Positions (purchases) in shorted securities are speculative and more risky than "long" positions (purchases) because the cost of the replacement security is unknown. Therefore, the potential loss on the short sale is unlimited, whereas the potential loss on long positions is limited to the original purchase price. Any strategy that includes selling securities short could suffer significant losses. Short selling will also result in higher transaction costs (such as interest and dividends), which reduce return, and may result in higher taxes.

Derivatives Risk. Investments in futures and options are considered "derivative" investments. A small investment in derivatives could have a potentially large impact on performance. The use of derivatives involves risks different from, or possibly greater than, the risks associated with investing directly in the underlying assets. Derivatives can be highly volatile, illiquid and difficult to value, and there is the risk that the hedging technique will fail if changes in the value of a derivative held do not correlate with the portfolio securities being hedged.

Put and Call Options Risk. There are risks associated with the sale and purchase of call and put options. As seller (writer) of a covered call option, assumes the risk of a decline in the market price of the underlying security below the purchase price of the underlying security less the premium received, and gives up the opportunity for gain on the underlying security above the exercise price of the option. If the option is uncovered, and the Seller must purchase the security at the current market price because the option is exercised, the loss

could be significant. The buyer of a put or call option risks losing the entire premium invested in the option if they do not exercise the option.

Item 9 – Disciplinary Information

None.

Item 10 – Other Financial Industry Activities and Affiliates

Investment Adviser to the Fund.

KCM is the Investment Advisor to the KCM Macro Trends Fund (the “Fund”), an investment company (“mutual fund”) registered under the Investment Company Act of 1940. See Item 11 below for additional information.

As investment adviser to the Fund, KCM receives an advisory fee for its services. Given the discussion relative to the objectives, suitability, risk factors, and qualifications for participation in the Fund, KCM may give advice or take action with respect to the Fund that differs from that given/taken by KCM for individual client accounts. To the extent that a particular investment is suitable for the Fund and certain individual client accounts, such investments will be allocated between the Fund and the individual client accounts on a pro-rata basis based on the assets under management or in some other manner which KCM determines is fair and equitable under the circumstances. As the investment adviser to the Fund, KCM shall receive an investment advisory fee from the Fund based on the average daily net asset balance of the Fund.

KCM’s associated persons may, at their own discretion, choose to individually invest in the Fund. As Fund shareholders/investors associated persons may benefit as assets increase.

The recommendation by any related person of KCM that a client invest all or a portion of their assets into the Fund presents a conflict of interest, as KCM’s receipt of an advisory fee, the calculation of which is based upon the average daily net asset balance of the Fund, provides an incentive to recommend the Fund based upon KCM’s advisory fee received from the Fund, rather than on a particular client’s need. Furthermore, as KCM’s associated persons are able to invest in the Fund at their own discretion, there may be an incentive to recommend the Fund to clients based upon the potential for a direct economic benefit that may be received by those associated persons who have invested in the Fund. No client is under any obligation to become an investor in the Fund.

Investment Adviser Representative of Other Investment Adviser Firm.

KCM's President, Martin Kerns, also serves as an investment adviser representative of Pensionmark Financial Group, LLC, an unaffiliated SEC registered investment adviser firm ("Pensionmark"). KCM may refer certain clients to Pensionmark for advisory services. No client is under any obligation to engage the services of Pensionmark.

Item 11 – Code of Ethics

KCM has adopted a Code of Ethics for all supervised persons of the firm describing its high standard of business conduct, and fiduciary duty to its clients. The Code of Ethics includes provisions relating to the confidentiality of client information, a prohibition on insider trading, restrictions on the acceptance of significant gifts and the reporting of certain gifts and business entertainment items, and personal securities trading procedures, among other things. All supervised persons at KCM must acknowledge the terms of the Code of Ethics annually, or as amended.

KCM anticipates that, in appropriate circumstances, consistent with client's investment objectives, it will cause accounts over which KCM has management authority to effect, or will recommend to investment advisory clients or prospective clients, the purchase or sale of securities in which KCM, its affiliates and/or clients, directly or indirectly, have a position of interest.

As previously described, KCM is the Investment Advisor to the KCM Macro Trends Fund (the "Fund"), a registered mutual fund, and receives a management fee for its advisory services. KCM may elect to invest all or a significant portion of a client's assets in this fund. This practice presents a conflict of interest because it gives us an incentive to invest client assets in the fund based on additional compensation received rather than client needs. We address this conflict by offsetting, against our regular management fee, any amounts earned or otherwise received from the Fund, less custodial platform expenses, such that our compensation will not be increased by use of the Fund. KCM employs this same offset procedure in company retirement plans that use the Fund so that our compensation remains level.

KCM's employees and persons associated with KCM are required to follow KCM's Code of Ethics. Subject to satisfying this policy and applicable laws, officers, directors and employees of KCM may trade for their own accounts in securities which are recommended to and/or purchased for KCM's clients. The Code of Ethics, which prohibits "front running" and provides that trades for the firm and trades for employees of the firm may occur only simultaneously with or after trades are placed for clients in the same security, is designed to assure that the personal securities transactions, activities and interests of the employees of KCM will not interfere with (i) making decisions in the best interest of advisory clients and (ii) implementing such decisions while, at the same time, allowing employees to invest

for their own accounts. Nonetheless, because the Code of Ethics in some circumstances would permit employees to invest in the same securities as clients, there is a possibility that employees might benefit from market activity by a client in a security held by an employee. Employee trading is continually monitored under the Code of Ethics, and to reasonably prevent conflicts of interest between KCM and its clients.

Item 12 – Brokerage Practices

The Custodian And Brokers We Use

KCM does not maintain custody of your assets [that we manage/on which we advise], although we may be deemed to have custody of your assets if you give us authority to withdraw our management fees from your account (See Item 15 – Custody, below). Your assets must be maintained in an account at a “qualified custodian,” generally a broker-dealer or bank.

The qualified custodian will hold your assets in a brokerage account and buy and sell securities when we instruct them to. While we may recommend that you use a particular custodian, you will decide whether to do so and will open your account with them by entering into an account agreement directly with them. We will assist you in opening the account. Even though your account is maintained by a particular custodian, we may still use other brokers to execute trades on your account as described below (see “*Your Brokerage and Custody Costs*”).

We generally recommend that our clients use TD Ameritrade Institutional (“TDA”), Charles Schwab & Co., Inc. (“Schwab”), or Interactive Brokers Group, Inc. (“Interactive Brokers”). KCM is independently owned and operated and is not affiliated with TDA, Schwab, or Interactive Brokers.

TD Ameritrade Institutional is a division of TD Ameritrade Inc., member FINRA/SIPC (“TDA”), an unaffiliated SEC-registered broker-dealer and FINRA member.

KCM participates in the institutional advisor programs (the “Program”) offered by TDA Ameritrade Institutional and Schwab Advisor ServicesTM (formerly called Schwab Institutional®)(Schwab).

TDA and Schwab offer to independent investment advisors services which include custody of securities, trade execution, clearance and settlement of transactions. Advisor receives some benefits from TDA and Schwab through its participation in the Program.

How We Select Brokers/Custodians

We seek to recommend a custodian/broker who will hold your assets and execute transactions on terms that are, overall, most advantageous when compared to the other available providers and their services. We consider a wide range of factors, including among others:

- Combination of transaction execution services and asset custody services (generally without a separate fee for custody)
- Capability to execute, clear, and settle trades (buy and sell securities for your account)
- Capability to facilitate transfers and payments to and from account (wire transfers, check requests, bill payment, etc.)
- Breadth of available investment products (stocks, bonds, mutual funds, exchange-traded funds [ETFs], etc.)
- Availability of investment research and tools that assist us in making investment decisions
- Quality of services
- Competitiveness of the price of those services (commission rates, margin interest rates, other fees, etc.) and willingness to negotiate the prices
- Reputation, financial strength, and stability
- Prior service to us and our other clients
- Availability of other products and services that benefit us, as discussed below

Your Brokerage And Custody Costs

TDA, Schwab, and Interactive Brokers generally do not charge you separately for custody services but are compensated by charging you commissions or other fees on trades that it executes or that you settle into your account.

We generally trade no-load mutual funds. There is no commission or fee expense for you associated with trading no load mutual funds. Commissions and fees are instead paid to the custodian by the fund company for access to their platform and your account, which is a benefit to you.

In addition to the commission and asset based fees, TDA, Schwab, or Interactive Brokers may charge you a flat dollar amount as a “Prime Broker” or “trade away” fee for each trade that we have executed by a different broker but where the securities bought or the funds from the securities sold are deposited (settled) into your account. These fees are in addition to the commissions or other compensation you pay the executing broker-dealer. Because of this, in order to minimize your trading costs, we have TDA, Schwab, or

Interactive Brokers execute most trades for your account. We have determined that having them execute most trades is consistent with our duty to seek “best execution” of your trades. Best execution means the most favorable terms for a transaction based on all relevant factors, including those listed above (see “*How We Select Brokers/Custodians*”).

Client Directed Brokerage. If the client directs that trades be executed through another broker-dealer, the client is responsible for negotiating the terms and conditions (including, but not limited to, commission rates) relating to all services to be provided by that broker-dealer. KCM will assume no responsibility for obtaining the “best execution” of your trade.

Products And Services Available To Us From TDA, Schwab, & Interactive Brokers

TDA, Schwab, and Interactive Brokers serve independent investment advisory firms like us. They provide us and our clients with access to institutional brokerage-trading, custody, reporting and related services – many of which are not typically available to retail customers. They also make available various support services. Some of those services help us manage or administer our clients’ accounts, while other help us manage and grow our business. Their support services generally are available on an unsolicited basis (we don’t have to request them) and at no charge to us.

Services That Benefit You. TDA, Schwab, and Interactive Brokers’ institutional brokerage services include access to a broad range of investment products, execution of securities transactions, monthly statements, and custody of client assets. The investment products available through TDA, Schwab, and Interactive Brokers include some to which we might not otherwise have access or that would require a significantly higher minimum initial investment by our clients. These services generally benefit you and your account.

Services That May Not Directly Benefit You. TDA, Schwab, and Interactive Brokers may also make available to us other products and services that benefit us but may not directly benefit you and your account. These products and services assist us in managing and administering our clients’ accounts. They include investment research: their own and that of third parties. We may use this research to service all or a substantial number of our clients’ accounts, including accounts not maintained at TDA, Schwab, or Interactive Brokers. In addition to investment research, TDA, Schwab, and Interactive Brokers also make available software and other technology that:

- Provide access to client account data (such as duplicate trade confirmations and account statements)
- Facilitate trade execution and allocate aggregated trade orders for multiple client accounts
- Provide pricing and other market data

-
- Facilitate payment of our fees from our clients' accounts
 - Assist with back-office functions, recordkeeping, and client reporting

Services That Generally Benefit Only Us. TDA, Schwab, and Interactive Brokers also offer other services intended to help us manage and further develop our business enterprise. These services include:

- Educational conference and events
- Consulting on technology, compliance, legal and business needs
- Publications and conferences on practice management and business succession
- Access to employee benefits providers, human capital consultants and insurance providers

TDA, Schwab, and Interactive Brokers may provide some of these services (without cost or at a discount). In other cases, they will arrange for third-party vendors to provide the services to us. TDA, Schwab, or Interactive Brokers may also discount or waive their fees for some of these services or pay all or a part of a third party's fees. TDA, Schwab, or Interactive Brokers may also provide us with other benefits, such as occasional business entertainment for our personnel.

KCM Macro Trends Fund - Soft Dollar Benefits

Knight Direct, LLC, ("KD"), Convergenx and WallachBeth Capital (collectively "Brokers") provide prime brokerage services to the KCM Macro Trends Fund (the "Fund"), including trade execution. KCM, in its management of the Fund, receives research or other products or services other than execution ("soft dollar benefits") from Brokers in connection with security transactions for the Fund.

Brokers, pursuant to their client commission program, have established a pool of credits based on commissions for trades routed by KCM for execution by Brokers on behalf of the fund. The credit rate for executions is \$0.0040 for Equities and \$.50 for Options contracts. Brokers, at KCM's request, uses the credits to pay for "research" services as defined in Section 28(e) of the Securities Exchange Act of 1934 that have been or will be used by KCM in the investment decision-making process for the Fund.

In the last year, KCM has used these credits to pay for proprietary research created and developed by leading services including Bloomberg. This research assists us in investment decision-making and trade execution. Brokers review and pay for these research services directly.

When KCM uses brokerage commissions to obtain research or other products or services, it receives a benefit because it does not have to produce or pay for the research, products or

services. This benefit may provide us with the incentive to select a broker-dealer based on our interest in receiving the research or other products or services rather than on our shareholders in receiving most favorable execution. This is a conflict of interest. We believe, however, that our selection of KD and Ceros as brokers, and receipt of soft-dollar benefits, is in the best interests of the fund's shareholders.

KCM's use of the soft dollar benefits received from Broker's is limited to our management of the Fund.

Directed Brokerage. KCM does not generally accept directed brokerage arrangements (when a client requires that account transactions be effected through a specific broker-dealer). In such client directed arrangements, the client will negotiate terms and arrangements for their account with that broker-dealer, and KCM will not seek better execution services or prices from other broker-dealers or be able to "batch" the client's transactions for execution through other broker-dealers with orders for other accounts managed by KCM. As a result, a client may pay higher commissions or other transaction costs or greater spreads, or receive less favorable net prices, on transactions for the account than would otherwise be the case. In the event that the client directs KCM to effect securities transactions for the client's accounts through a specific broker-dealer, the client correspondingly acknowledges that such direction may cause the accounts to incur higher commissions or transaction costs than the accounts would otherwise incur had the client determined to effect account transactions through alternative clearing arrangements that may be available through KCM. Higher transaction costs adversely impact account performance. Transactions for directed accounts will generally be executed following the execution of portfolio transactions for non-directed accounts.

Item 13 – Review of Accounts

Martin Kerns reviews client accounts on a quarterly basis. KCM provides, for accounts with balances of \$100,000 or more, written quarterly reports that include account balance, performance and fee information.

Item 14 – Client Referrals and Other Compensation

KCM may compensate third parties for client referrals. Clients whose accounts are the subject of referral fees will receive full written disclosure, in advance, of the terms of the referral arrangement.

As disclosed under Item 12, above, KCM participates in the institutional customer programs of TDA, Schwab, and Interactive Brokers, and Advisor may recommend TDA, Schwab, or Interactive Brokers to Clients for custody and brokerage services. There is no

direct link between KCM's participation in the program and the investment advice it gives to its Clients, although KCM receives economic benefits through its participation in the programs that are typically not available to TDA, Schwab, or Interactive Brokers retail investors.

These benefits include the following products and services (provided without cost or at a discount): receipt of duplicate Client statements and confirmations; research related products and tools; consulting services; access to a trading desk serving Advisor participants; access to block trading (which provides the ability to aggregate securities transactions for execution and then allocate the appropriate shares to Client accounts); the ability to have advisory fees deducted directly from Client accounts; access to an electronic communications network for Client order entry and account information; access to mutual funds with no transaction fees and to certain institutional money managers; and discounts on compliance, marketing, research, technology, and practice management products or services provided to KCM by third party vendors.

TDA, Schwab, or Interactive Brokers may also have paid for business consulting and professional services received by KCM's related persons.

Some of the products and services made available by TDA, Schwab, or Interactive Brokers may benefit KCM but may not benefit its Client accounts. These products or services may assist KCM in managing and administering Client accounts, including accounts not maintained at TDA, Schwab, or Interactive Brokers. Other services made available by TDA, Schwab, or Interactive Brokers are intended to help KCM manage and further develop its business enterprise.

The benefits received by KCM or its personnel through participation in the Program do not depend on the amount of brokerage transactions directed to TDA, Schwab, or Interactive Brokers. As part of its fiduciary duties to clients, KCM endeavors at all times to put the interests of its clients first. Clients should be aware, however, that the receipt of economic benefits by KCM or its related persons in and of itself creates a potential conflict of interest and may indirectly influence the KCM's choice of TDA, Schwab, or Interactive Brokers for custody and brokerage services.

KCM also receives from TDA certain additional economic benefits ("Additional Services") that may or may not be offered to any other independent investment Advisors participating in the program. Specifically, the Additional Services include Schwab Performance Technologies Portfolio Center.

TDA provides the Additional Services to KCM in its sole discretion and at its own expense, and KCM does not pay any fees to TDA for the Additional Services. KCM and TDA have

entered into a separate agreement (“Additional Services Addendum”) to govern the terms of the provision of the Additional Services.

KCM’s receipt of Additional Services raises potential conflicts of interest. In providing Additional Services to KCM, TDA most likely considers the amount and profitability to TDA of the assets in, and trades placed for, KCM’s Client accounts maintained with TDA. TDA has the right to terminate the Additional Services Addendum with Advisor, in its sole discretion, provided certain conditions are met. Consequently, in order to continue to obtain the Additional Services from TDA, KCM may have an incentive to recommend to its Clients that the assets under management by KCM be held in custody with TDA and to place transactions for Client accounts with TDA. KCM’s receipt of Additional Services does not diminish its duty to act in the best interests of its Clients, including seeking best execution of trades for Client accounts.

Item 15 - Custody

Under government regulations, we are deemed to have custody of your assets if, for example, you authorize us to instruct your broker dealer, bank or other qualified custodian, *e.g.*, TDA, Schwab, or Interactive Brokers (collectively called “custodian”), to deduct our advisory fees directly from your account. Your custodian, however, maintains actual custody of your assets. You will receive account statement directly from your custodian at least quarterly. The will be sent to the email or postal mailing address you provided the custodian. You should carefully review these statements promptly when you receive them. KCM urges you to carefully review such statements and compare such official custodial records to the account statements you will receive from us. Our statements may vary from custodial statements based on accounting procedures, reporting dates, or valuation methodologies of certain securities.

Item 16 – Investment Discretion

KCM manages money on a discretionary basis. Clients opening discretionary accounts are required to execute an Investment Advisory Agreement and limited power of attorney that, among other things, grants us authority to manage their assets on a discretionary basis, meaning we have the authority to select the identity and amount of securities to be bought or sold in the clients’ account. In all cases, however, such discretion is to be exercised in a manner consistent with the stated investment objective for the particular client account.

As stated above in Item 4, clients may generally not impose restrictions on investing in certain securities or types of securities.

When selecting securities and determining amounts, KCM observes the investment policies, limitations and restrictions of the clients for which it advises, if any. For registered investment companies, KCM's authority to trade securities may also be limited by certain federal statutes rather than based on your interest in receiving the best value in custody services and the most favorable execution of your transactions. This is a potential conflict of interest. We believe, however, that our selection of a particular custodian and/or broker is in the best interests of our client.

Item 17 – Voting Securities

KCM does not vote proxies on behalf of advisory clients. Clients retain the responsibility for receiving and voting proxies for any and all securities maintained in client portfolios. Proxies are mailed to each client directly by Schwab.

KCM votes proxies for the KCM Macro Trends Fund. Clients may obtain a copy of our proxy voting policies and procedures upon request.

Item 18 – Financial Information

KCM has no financial commitment that impairs its ability to meet contractual and fiduciary commitments to clients, and has not been the subject of a bankruptcy proceeding.

Brochure Supplement – Martin L. Kerns, II

Item 1 – Cover Page

Martin L. Kerns, II
Kerns Capital Management, Inc.
9821 Katy Freeway, Suite 400
Houston, TX 77024
(713) 993-0949
www.KCMTX.com

Date Prepared: March 21, 2017

This Brochure Supplement provides information about Martin Lane Kerns, II that supplements the Kerns Capital Management, Inc. Brochure. You should have received a copy of that Brochure. Please contact Martin Kerns, President, Kerns Capital Management, Inc. if you did not receive the Brochure or if you have any questions about the contents of this supplement.

Additional information about Martin L. Kerns, II is available on the SEC's website at www.adviserinfo.sec.gov.

Martin L. Kerns, II

Martin Kerns gives investment advice, has direct client contact and/or has discretionary authority of a client's assets on behalf of Kerns Capital Management, Inc. ("KCM").

Item 2 - Educational Background and Business Experience

Martin Kerns is Chief Executive Officer, President and Chief Compliance Officer of KCM. He was born in 1966. Mr. Kerns joined the firm in May 2007, and purchased it in 2012. Prior to joining KCM, Mr. Kerns was a partner in the law firm of Beirne, Maynard & Parsons, LLP. He has B.A. in Finance from the University of Texas at Austin (1989) and a J.D. from South Texas College of Law (1992).

Item 3 - Disciplinary Information

None.

Item 4 - Other Business Activities

Mr. Kerns is also registered with Pensionmark Financial Group, LLC, an SEC registered investment advisor. KCM may recommend the retirement plan advisory services of Pensionmark to qualified and no-qualified retirement company retirement plans. No client is under any obligation to engage the services of Pensionmark.

Item 5 - Additional Compensation

None.

Item 6 - Supervision

Martin L. Kerns, II, as President of Kerns Capital Management, has no supervisor. Parker Binion reviews Mr. Kerns' personal trades and compliance with the firm's Code of Ethics. He may be contacted at (713) 993-0949 ext. 103.

Brochure Supplement – Parker B. Binion

Item 1 – Cover Page

Parker B. Binion
Kerns Capital Management, Inc.
9821 Katy Freeway, Suite 400
Houston, TX 77024
(713) 993-0949
www.KCMTX.com

Date Prepared: March 21, 2017

This Brochure Supplement provides information about Parker B. Binion that supplements the Kerns Capital Management, Inc. Brochure. You should have received a copy of that Brochure. Please contact Martin Kerns, President, Kerns Capital Management, Inc. if you did not receive the Brochure or if you have any questions about the contents of this supplement.

Additional information about Parker B. Binion is available on the SEC’s website at www.adviserinfo.sec.gov.

Parker B. Binion

Parker Binion gives investment advice, has direct client contact and/or has discretionary authority of a client's assets on behalf of Kerns Capital Management, Inc. ("KCM").

Item 2 - Educational Background and Business Experience

Parker Binion is the Chief Investment Officer for KCM. He was born in 1965. Mr. Binion joined the firm as an independent contractor in October 2014. Prior to joining KCM, Mr. Binion was an advisor for Heritage Capital. He has B.A. in Political Science from Duke University (1988) and a J.D. with honors from the University of Texas at Austin (1991).

Item 3 - Disciplinary Information

None.

Item 4 - Other Business Activities

Parker Binion is also registered with Pensionmark Financial Group, LLC, an SEC registered investment advisor. KCM may recommend the retirement plan advisory services of Pensionmark to qualified and no-qualified retirement company retirement plans. No client is under any obligation to engage the services of Pensionmark.

Item 5 - Additional Compensation

None.

Item 6 - Supervision

The work of Parker B. Binion is supervised by Martin L. Kerns, II, President of the firm, who may be contacted at (713) 993-0949, ext. 107.