

# Key Investment Services LLC

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March 31, 2019

## **Part 2A Appendix 1 of Form ADV**

### **Key Digital Portfolio Advisor<sup>SM</sup>**

#### NOTICES TO ADVISORY ACCOUNT CUSTOMER(S) (“CLIENT(S)”)

**This wrap fee program brochure provides information about the qualification and business practices of Key Investment Services LLC (“KIS”). If you have any questions about the contents of this brochure, please contact the KIS Client Service Center at 1-888-547-2968. 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. Additional information about KIS also is available on the SEC’s website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov). KIS is a registered investment adviser with the SEC. Registration does not imply a certain level of skill or training.**

You either signed or will sign the documents to establish a wrap account. This is an investment advisory account, with KIS, by which you established a brokerage account at KIS that is carried by Pershing LLC (“Pershing”) which acts as clearing broker and custodian for the account. Pershing acts as a qualified custodian for all KIS advisory account assets. It holds and maintains all funds and securities in your advisory account. It will send you periodic statements showing your holdings and any activity in your account. Please read your statements carefully when you receive them.

You can contact Pershing at the following address:

Pershing LLC  
One Pershing Plaza  
Jersey City, New Jersey 07399

Investment products are offered through KIS, member FINRA/SIPC and carried by Pershing LLC, member FINRA/NYSE/SIPC. Insurance products are offered through KeyCorp Insurance Agency USA Inc. (KIA). KIS and KIA are affiliated with KeyBank National Association (KeyBank). KIS, KIA and KeyBank are separate entities, and when you buy or sell securities and insurance products you are doing business with KIS and/or KIA, and not KeyBank.

Investment and insurance products made available through KIS and KIA are:

<b>NOT FDIC INSURED • NOT BANK GUARANTEED • MAY LOSE VALUE • NOT A DEPOSIT • NOT INSURED BY ANY FEDERAL OR STATE GOVERNMENT AGENCY</b>
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## Item 2: Summary of Material Changes

The following material changes pertinent to the provision of Key Investment Services LLC's Key Digital Portfolio Advisor<sup>SM</sup> Program (the "Key Digital Program") have occurred since the annual update of its brochure on March 22, 2018.

Effective October 1, 2018, the current program fee for the Program was reduced from 0.70 % to 0.50 %.

Effective October 1, 2018, KIS permitted KeyBank employees, in addition to KIS employees, to invest funds in the Key Digital Program. For KIS and KeyBank employees, KIS will waive the current program fee for the first year of enrollment. Effective May 1, 2019 the Key Digital Program will be offered to any interested investor. In addition, it will not be limited to individual retirement accounts (traditional and Roth).

As of the filing of this brochure, KIS, as a non-discretionary investment adviser, offers six models through the Lockwood WealthStart Program, for which Lockwood Advisors, Inc. ("Lockwood") is the third-party model strategist and discretionary money manager, as a managed account product option for our clients. Effective on or about May 1, 2019 (the "Transfer Date"), KIS will offer new Key Digital Program accounts six (6) models of the Vanguard ETF Strategic Model Portfolios CORE Series (CORE Series) through Lockwood, as part of a restructuring of our advisory program to improve our product offerings. As a result, as of the Transfer Date, all new Key Digital Program accounts at KIS will be invested in the CORE Series. Lockwood will be the discretionary money manager for those accounts through a third-party strategist, Vanguard Advisors, Inc. ("VAI"), implementing trade orders based on asset allocation changes determined by VAI. In addition, KIS intends to migrate all current Key Digital Program accounts from the WealthStart models to the CORE Series models on or about the Transfer Date. Consistent with the same, KIS will provide notice of this impending change in our program structure to and will seek consent from its clients for this change in the investments in their accounts and for the amendment of the documents governing their accounts. Clients who wish to maintain their Lockwood WealthStart Program investments for their accounts may notify KIS by April 30, 2019 of the same, and KIS will resign as investment adviser, terminate their advisory agreements and maintain their investments in their underlying brokerage account. If the client requests, KIS will work with such clients to assist them in transferring their account to another financial institution of the client's choice, in which event KIS would waive the costs and fees it customarily charges in connection with the transfer of an account. Lockwood continues to serve as the discretionary money manager for Key Digital Program accounts at KIS until the Transfer Date, and thereafter for accounts that choose to invest in the CORE Series.

On September 17, 2018, Lockwood disclosed that it had amended Item 9 of its Form ADV Part 2A Appendix 1 Wrap Fee Program Brochure to disclose administrative proceedings by the Securities and Exchange Commission ("SEC") against Lockwood for failure to adopt and implement policies and procedures reasonably designed to provide clients or their investment managers with material information about third party portfolio manager's "trading away" practices in Lockwood's separately managed account wrap fee program ("Wrap Program") and the full extent of the costs of choosing certain portfolio managers in those Wrap Programs. Lockwood was ordered to cease and desist from committing or causing any violations and any future violations of Section 206(4) of the Investment Advisers Act of 1940 and Rule 206(4)-7 thereunder. Lockwood paid a civil money penalty in the amount of \$200,000 to the SEC.

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## Item 4: Services, Fees and Compensation

Key Investment Services LLC (“KIS”) as “Wrap Program Sponsor” either sponsors or offers as part of its wrap fee programs (“Wrap Programs”) access to certain investment advisory products through online digital access (“Advisory Products”) listed in this brochure for its Clients. Advisory Products include investment advisory products proprietary to or administered by third-party service providers which, among other things, allows KIS Clients to access portfolio managers participating in such Advisory Product platforms for purposes of managing trading activity in a Client’s wrap fee account. KIS has established an Investment Advisory Sub-Committee to its Product Due Diligence Committee to perform due diligence and monitoring of existing and potentially new third-party service providers. KIS may refine its Advisory Product offerings and introduce new products as part of its continuous efforts to meet the investment needs of its Clients, respond to changing markets and take advantage of recent technological or other innovations. In addition, from time to time acquisitions or new business relationships may contribute new product offerings. KIS sponsors other wrap fee programs which are available through its Financial Advisors. Please call the Client Service Center at the telephone number on the cover page of this Brochure or contact one of KIS’s Financial Advisors if you want a to obtain a copy of the ADV Part 2A Appendix 1 Brochure for the Firm’s other wrap fee programs.

### Key Digital Portfolio Advisor<sup>SM</sup> (“Key Digital Program”)

KIS offers the Key Digital Program on a nondiscretionary basis to its Clients through its relationship with Lockwood which, as discretionary money manager for the Key Digital Program, creates and implements the investment strategies in the models in which a Client may invest.

Note: KIS plans to make the Key Digital Program available to potential Clients in stages. Initially, KIS limited participation in the Key Digital Program to KIS employees. Effective October 1, 2018, KIS limited participation in the Key Digital Program to KIS and KeyBank employees in order to further assess market receptivity, customer demand, and additional support resources that may be necessary for the Program in the event KIS were to determine to expand the Program beyond the pilot stage. Effective May 1, 2019, KIS will permit any qualified investor to participate in the Key Digital Program.

#### Lockwood WealthStart

With respect to the Key Digital Program, KIS offers until the Transfer Date, a program which is comprised of a series of model portfolios created by Lockwood Advisors, Inc. (“Lockwood”) containing both mutual funds (“Funds”) and exchange traded funds (“ETFs”). The Key Digital Program is offered to Clients through Lockwood utilizing the Jemstep online technology platform. Jemstep is a SEC-registered investment adviser and a subsidiary of Invesco, LTD. Jemstep, in the Key Digital Program, does not act as an investment manager or adviser but rather acts as a technology service provider that provides online investment technology which will allow KIS Clients to have their accounts serviced through an online platform that features paperless onboarding processes. The Key Digital Program offers six (6) asset allocation models (“Model(s)”) which provide broad-market stock and investment-grade bond exposure in a range of stock/bond allocations, from 97% fixed income to 100% equity. Lockwood provides discretionary management for Clients’ Key Digital Program accounts through its Lockwood WealthStart<sup>TM</sup> Program and implements trade orders based on asset allocation changes determined by Lockwood. Clients may invest in the Key Digital Program depending on how a Client scores on a risk profile questionnaire. Neither KIS nor Lockwood exercise investment discretion in the selection of the particular Model in which the Client chooses to invest. Clients direct the overall investment strategy and profile changes made in their accounts. Lockwood does not tailor the Key Digital Program to meet the needs of individual Clients. Rather, Lockwood administers the Key Digital Program in accordance with pre-determined allocations that

may be adjusted from time to time. Lockwood retains discretion with respect to individual Client accounts over the implementation of asset allocation changes in the Models.

### **Vanguard ETF Strategic Portfolios CORE Series**

With respect to the Key Digital Program, KIS offers as of the Transfer Date a program which is comprised of six (6) models of the Vanguard ETF Strategic Model Portfolios CORE Series containing exchange traded funds (“ETFs”). The Key Digital Program is offered to Clients through Lockwood Advisors, Inc. (“Lockwood”) utilizing the Jemstep online technology platform. Jemstep is a SEC-registered investment adviser and a subsidiary of Invesco, LTD. Jemstep, in the Key Digital Program, does not act as an investment manager or adviser but rather acts as a technology service provider that provides online investment technology which will allow KIS Clients to have their accounts serviced through an online platform that features paperless onboarding processes. The Key Digital Program offers six (6) asset allocation models (“Model(s)”) which provide broad-market stock and investment-grade bond exposure in a range of stock/bond allocations, from 90% fixed income to 90% equity. Lockwood provides discretionary management for Clients’ Key Digital Program accounts through a third-party strategist, Vanguard Advisors, Inc. (“VAI”), and implements trade orders based on asset allocation changes determined by VAI.

Clients may invest in the Key Digital Program depending on how a Client scores on a risk profile questionnaire. Neither KIS nor Lockwood exercise investment discretion in the selection of the particular Model in which the Client chooses to invest. Clients direct the overall investment strategy and profile changes made in their accounts. Lockwood does not tailor the Key Digital Program to meet the needs of individual Clients. Rather, Lockwood administers the Key Digital Program in accordance with pre-determined allocations that may be adjusted from time to time. Lockwood retains discretion with respect to individual Client accounts over the implementation of asset allocation changes in the Models.

Clients may invest in these Key Digital Program Models depending on their risk profile which is obtained when the Client completes the risk profile questionnaire. The output from the questionnaire is a risk score, which generates a non-discretionary recommendation to the Client concerning which Model best suits the Client’s risk tolerance. Clients then select a Key Digital Program Model that is appropriate for the investment circumstances Clients set forth in the risk profile questionnaire. Clients make the final determination as to which overall investment strategy and profile changes will be made in their accounts. The Client is ultimately responsible for the selection of the appropriate asset allocation in the Key Digital Program Model.

KIS does not exercise investment discretion in the selection of the Key Digital Program Model or the specific underlying investment vehicles and strategies comprising the Key Digital Program Model.

Lockwood retains discretion with respect to individual Client accounts over the implementation of asset allocation changes in the Models, and may implement asset allocation changes differently with respect to individual Client accounts. Other services offered in connection with the Key Digital Program include, but are not limited to: periodic rebalancing of the Client's portfolio by Lockwood to maintain the desired asset allocation and the provision of monthly custodial account statements by Pershing. No quarterly performance reporting by Lockwood will be provided for the Key Digital Program.

KIS’s current program fee for the Key Digital Program is 0.50% of portfolio value. As part of the program fee, KIS will pay from its portion of the program fee to Lockwood of 0.15% of portfolio value for its services as discretionary money manager. This fee shall be billed quarterly. The minimum annual fee shall be \$30.00. For KIS and KeyBank employees, KIS will waive the current program fee for the first year of enrollment.

Fees for the Key Digital Program are negotiable in KIS's sole and absolute discretion. Fees for the Key Digital Program do not cover all costs or charges arising from these accounts. For example, these program fees do not cover (i) dealer markups or markdowns; (ii) costs associated with the purchase and sale of mutual funds; (iii) charges imposed by law; (iv) costs relating to trading in foreign securities; (v) internal charges and fees that may be imposed by any collective investment vehicles such as open-end funds, closed-end funds, index shares, UITs, ETFs, or real estate investment trusts; (vi) other specialized charges such as transfer taxes, exchange and SEC transaction fees; and (vii) any brokerage commissions or other charges imposed by broker dealers or entities other than Pershing and certain liquidation fees; (viii) certain hard dollar fees associated with foreign exchange, taxes and other related fees in connection with American Depository Receipts; (ix) certain charges associated with securities transactions in Client's account such as spreads charged on transactions in over-the-counter securities, contingent deferred sales charges that may be imposed upon the liquidation of in-kind assets transferred into the program; (x) certain custodial charges that may be charged by a custodian such as a minimum account fee or charges for ACAT transfers, electronic and wire transfer charges, optional services elected by Client, transaction-based ticket charges that may be assessed by custodian for the purchase of certain mutual funds, and certain non-brokerage related charges such as IRA trustee fees or IRA termination fees; and (xi) possible mutual fund redemption fees. Please see the prospectus or other disclosure document for the specific collective investment vehicle for detailed information regarding such fees. If there is insufficient cash in a Key Digital Program Client account to pay fees, costs or other charges, Lockwood may sell account assets to pay them. Clients should carefully review Lockwood's Form ADV Part 2A and their investment management account investment selection forms and terms and conditions for further information on such costs or charges. Please also read carefully Lockwood's Form ADV Part 2A to learn what portion of the fees Lockwood may receive and details regarding what this portion of the fees covers.

### **KIS Program Services**

Through the Key Digital Program, KIS electronically provides its Client with a Client profile and investment information document to determine the Client's financial circumstances, investment objectives and reasonable restrictions on management of the wrap account, if any. Based upon the information provided, KIS will assist the Client in selecting investment options from investment programs. Clients open wrap account(s) with KIS and retain KIS to provide an online recommendation to the Client for allocating the Client's assets and in monitoring and/or selecting one or more investment options and to provide trade execution, reporting and custodial services for the account. For additional information regarding Review of Accounts, please see Item 9(4).

For all Advisory Products currently offered, KIS introduces the account to Pershing LLC ("Pershing"), which will act as custodian for the account. Services offered by Pershing as custodian of the account will include all custodial functions customarily performed with respect to such accounts including, but not limited to: back office support, execution of securities transactions (when appropriate), crediting of interest and dividends and periodic reporting, which reports Pershing will send directly to the Client.

A Client who participates in a wrap fee arrangement should consider that, depending on the level of the wrap fee charged, the amount of portfolio activity in the Client's account, the value of the custodial and other services which are provided under the arrangement, and other factors, the wrap fee may or may not exceed the aggregate cost of such services if they were to be purchased separately.

Investments in mutual funds and ETFs are subject to various other fees that are paid by those portfolios, but ultimately are borne by shareholders through lower returns than would likely be experienced without those fees. These expenses may include investment advisory, administrative, distribution, transfer agent, custodial, legal, audit, and other customary fees related to investment in mutual funds. In addition, securities purchased by Lockwood may require that spreads be paid to market makers as markups or

markdowns of the price of the security purchased. For further information, please see Item 4 above and the prospectus for the applicable mutual fund or ETF.

KIS is generally compensated on the basis of fees calculated as a percentage of assets under management, and may also on occasion be compensated through fixed-fee arrangements. Fees that are calculated as a percentage of assets under management are generally charged quarterly in advance, based upon the average daily balance of assets under management, including money market and other cash equivalent assets, during the prior quarter. All fees are deducted from the account unless otherwise agreed.

KIS or the Client may generally terminate Client agreements at any time by written notice, in some cases with thirty (30) days' prior written notice. If a Client terminates the agreement within five (5) business days after it has been signed by the Client and accepted by KIS, the Client generally will receive a full refund of all fees and expenses. If an agreement is terminated at any time after five (5) business days of its signing and during a quarter, the Client will be entitled to a pro rata refund of any prepaid fees, in each case based upon the number of days remaining in the quarter after the date upon which notice of termination is received.

As described previously, Key Digital Program Clients are charged a wrap fee every calendar quarter in advance for services that generally include advisory, transactional and custodial services. KIS shares a portion of the wrap fee with Lockwood for its services. No wrap fee adjustments are made for any billing period with respect to partial withdrawals within a billing period. Wrap fees do not cover all costs or charges arising from these accounts. For further information, please see current Digital Advisory Product descriptions in Item 4 above and Lockwood's Form ADV Part 2A brochure.

Fees for individual customers may be negotiated in KIS's sole and absolute discretion. In KIS's sole and absolute discretion, certain related accounts may be aggregated for purposes of applying the applicable blended fee schedule as if the accounts were one account. Account minimums may also be waived in KIS's sole and absolute discretion. KIS in its sole and absolute discretion may also charge different fees than the fees summarized in this brochure, such as a flat fee rate such that assets will be charged the same rate regardless of the amount of assets in the account, based upon matters that may be deemed relevant by KIS such as additional assets under management in different programs or other business relationships with the Client. This could cause customers who do not receive such treatment to pay more for the similar services.

KIS may in its sole discretion change the actual fee charged upon thirty days' written notice to the Client. Clients may accept the change or close the account.

Because KIS's advisory fees (and Lockwood's portions of the fees) are based on assets under management, KIS and Lockwood have a conflict of interest in valuing securities held in Client accounts, since a higher valuation produces higher advisory fees. In order to ensure that Client assets are accurately valued, for purposes of calculating fees where Pershing acts as the Client's custodian, securities listed on any national securities exchange shall be valued, as of the valuation date, at the closing price on the principal exchange on which they are traded. Any other securities or investments shall be valued in a manner determined in good faith to reflect fair market value. Any such valuation should not be considered a guarantee of any kind whatsoever with respect to the value of the assets. Pershing in its sole discretion may use the services of an independent evaluator, as well as other independent sources with respect to the computation of market value of securities. The data contained in those reports has not been verified by Pershing or KIS.

A Client may select that uninvested cash funds in their account awaiting permanent investment may be swept into the Dreyfus Insured Deposit Program (the "Program") offered through Pershing. Pershing operates the Program which, if the Client chooses to participate, will sweep Client's excess cash balances in their brokerage account at Pershing into interest-bearing bank deposit accounts ("Deposit Accounts") at various depository institutions ("Program Banks") and sweeps a Client's cash from the various Program

Banks to cover purchases of securities and other debits in the Client's brokerage account carried at Pershing. The Client receives interest on balances held on deposit at the various Program Banks. Interest rates may fluctuate and are based on the interest rates determined and paid by the respective Program Banks in which a Client's balances are invested. A Client may receive a lower rate of return on balances invested through the Program than on other investment or cash sweep alternatives. A Client will not have a direct access to the funds deposited with the Program Banks, but a Client may access his or her funds through their account by contacting the KIS Client Service Center to process such a request through Pershing. A Client's brokerage statement will list the names of the Program Banks holding the Client's balances, as well as how much is on deposit with each respective Program Bank. Pershing or its affiliated companies (Promontory InterFinancial Network ("Promontory") and Dreyfus Cash Investment Services, a division of MBSC Securities Corporation ("Dreyfus") who provide services to the Program may change Program Banks participating in the program and their priority for receiving deposits from time to time. Pershing, Promontory and Dreyfus earn fees (which may or may not be account-based) on the amount of money in the Program, including a Client's balances. Pershing or Dreyfus may be affiliated with Program Banks. KIS's affiliated bank, KeyBank National Association is a Program Bank; however, no KIS Client uninvested cash funds in the Account will be deposited at KeyBank. For further information concerning the Program (including the eligibility of deposited funds for FDIC insurance of up to \$250,000 per insurable interest) please read the Dreyfus Insured Deposit Program Disclosure Statement and Terms and Conditions for Single Rate Program which is supplied at account opening or is available on request.

### **Other Fees and Compensation Received by KIS from Third Parties**

Certain mutual funds, in which Clients may invest, distribute or may distribute payments to KIS and/or Pershing as clearing broker for KIS. KIS may therefore have a financial incentive to recommend these mutual funds over other mutual funds that may be included in the asset allocation of a Client's wrap account. Such payments may be made pursuant to a Rule 12b-1 distribution plan or other arrangements as compensation to help defray the costs of services offered by KIS and made available to fund families such as for distribution, shareholder services, record keeping, administrative services, and the costs of KIS representatives' training and continuing education and sales events. Such payments may be distributed from the fund's total assets. Individual KIS representatives do not receive any portion of these payments. This includes payments from mutual funds for which neither KIS nor any of its affiliates or subsidiaries ("Key") serves as an investment adviser, fund manager, or distributor ("Non-Proprietary Mutual Funds"). Key may receive compensation from the Non-Proprietary Mutual Funds and/or the Non-Proprietary Mutual Fund companies for providing services in connection with investments by its customers. For example, Key has entered into arrangements with Non-Proprietary Mutual Fund companies under which the Non-Proprietary Mutual Funds and/or the Non-Proprietary Mutual Fund companies will compensate Key for the Non-Proprietary mutual fund services. These fees for services shall be in addition to, and will not reduce, Key's compensation for other services to Clients' accounts. Such fees for services will not be paid directly by Clients' accounts, but will be paid to Key by the Non-Proprietary Mutual Fund Company or the Non-Proprietary Mutual Fund itself. The 12b-1 fee and other arrangements will be disclosed upon Client's request and are typically available in the applicable fund's prospectus. KIS will credit or cause to be credited any 12b-1 fees that it may receive from a mutual fund in connection with a Client's wrap account back to the Client's wrap account. KIS will retain any other fee and that fee is in addition to the Advisory Product Fees discussed herein. For further information Clients should carefully review their KIS Digital Advisory Contract and Client Agreement and the prospectus for the applicable mutual fund.

Pershing has entered into agreements with certain mutual fund companies that pay Pershing for performing certain services for the mutual fund. Pursuant to these agreements, Pershing receives fees for operational services from mutual funds in the form of networking or omnibus processing fees. The reimbursements are remitted to Pershing for its work on behalf of the funds. This work may include, but is not limited to, subaccounting services, dividend calculation and posting, accounting, reconciliation, Client confirmation and statement preparation and mailing and tax statement preparation and mailing. These reimbursements



are based either on (a) a flat fee ranging from \$10 to \$20 per holding or (b) a percentage of assets that can range from 0 to 15 basis points for domestic funds and 0 to 30 basis points for offshore funds. Mutual funds that are available in Pershing's FundVest no-transaction fee mutual fund program may pay Pershing servicing fees in exchange for being offered in Pershing's FundVest Program ("FundVest Program"). These payments are based on a percentage of assets and can range from 7 to 40 basis points. KIS may receive certain asset-based revenue sharing fees from Pershing if assets under management in mutual funds in the FundVest Program from KIS's Clients exceed \$10,000,000. Such payment will be at the rate of 0.0040 multiplied by assets under management in funds participating in the FundVest Program. While KIS does not have discretion to invest in such funds, the additional compensation may give KIS a financial incentive to recommend funds participating in the FundVest Program over other funds.

## **Item 5: Account Requirements and Types of Clients**

The minimum investment dollars required to open and maintain an account for the Key Digital Program is \$5,000.

KIS provides the Key Digital Program to any interested investor. KIS also provides other separate wrap fee account programs to individuals, trusts, estates, and small businesses as discussed in KIS's Form ADV Part 2A Appendix 1 for its other wrap fee account programs. Please read carefully Lockwood's Form ADV Part 2A for information about Lockwood's Clients.

## **Item 6: Portfolio Manager Selection and Evaluation**

As described in Item 4, KIS is a Wrap Program Sponsor by which it provides access to the Key Digital Program through Lockwood.

According to Lockwood's Form ADV Part 2A, The Bank of New York Mellon Corporation's ("BNY Mellon") Manager Research Group ("BYNMMRG") is the primary manager research provider to and provides manager and investment vehicle research to Lockwood. Lockwood is an indirect, wholly-owned subsidiary of BNY Mellon. Lockwood retains decision-making responsibility regarding managers and investment vehicles included in its programs and products. According to information in Lockwood's Form ADV Part 2A, Lockwood considers various sources of information and criteria in selecting and ongoing evaluation of investment vehicles and sub-managers for its wrap products and programs, which includes WealthStart™. According to Lockwood's Form ADV Part 2A, with respect to portfolio managers and model managers Lockwood, through BYNMMRG, may consider a variety of criteria such as reviews of assets under management, personnel, registration, disclosures and regulatory history.

The criteria employed for each manager may not be identical and instead may be based on the nature of the manager's portfolios and investment philosophy.

According to Lockwood's Form ADV Part 2A, with respect to mutual funds, in its role as money manager Lockwood, through BYNMMRG, uses a screening process to evaluate mutual funds. Criteria employed in the screening process may vary depending on a variety of factors, but may include a range of criteria including analysis of:

- Particular investment style;
- Evaluation of the portfolio management team;
- Performance criteria; and
- Costs associated with the fund

Lockwood retains decision-making responsibility regarding mutual funds included in its programs and products.

According to Lockwood's Form ADV Part 2A, with respect to ETFs, in its role as money manager Lockwood, through BYNMMRG, uses a comparable screening process and may consider a range of factors including:

- Tracked index or benchmark;
- Performance;
- Comparables;
- Personnel; and
- Content of the particular ETF.

Lockwood retains decision-making responsibility regarding mutual funds or ETFs included in its programs and products.

Clients should read carefully Lockwood's Form ADV Part 2A for required disclosures including with respect to Lockwood's investment vehicle and sub-manager selection and evaluation process and potential conflicts of interest created by Lockwood's use of the BYNMMRG.

KIS utilizes a monitoring program, which is administered by an Investment Advisory Sub-Committee to its Product Due Diligence Committee as set forth in Item 4, to evaluate its third-party service providers participating in KIS' Wrap Programs. KIS utilizes various analysts, some of whom may be third party firms, to assist in the review of the analysis performed and supplied by Lockwood with regard to its review of the Key Digital Program. The Investment Advisory Sub-Committee will review annually the performance of Lockwood as discretionary money manager of the Key Digital Program. This review will consider a combination of factors based on aggregated or summary information to evaluate Lockwood's overall management and selection of mutual funds and ETFs, including details regarding performance consistency and performance relative to peers, among other factors.

In addition, KIS's monitoring program for its Wrap Programs also provides that it will contact its Clients who invest in the Key Digital Program no less than annually to determine if there have been any changes in the Client's financial situation or investment objectives and whether the Client wishes to impose reasonable restrictions on the management of the Account.

Lockwood, Dreyfus and Promontory are affiliated with Pershing. This could result in conflicts of interest where one firm hires an affiliate as a portfolio manager or other service provider. For further information please read carefully Lockwood's Form ADV Part 2A and the Dreyfus Insured Deposit Program Disclosure Statement and Terms and Conditions for Single Rate Program, either of which is supplied at account opening or is available on request from the KIS Client Service Center. Lockwood, Promontory, Dreyfus and Pershing are not affiliated with KIS.

Certain Investment Managers or sub-managers for ETFs or mutual funds may, as part of their independent trading strategies, purchase securities issued by KeyCorp or may purchase securities through or securities underwritten by KeyBanc Capital Markets, Inc., an affiliated broker-dealer of KIS. KIS does not exercise discretion over these programs; does not require, encourage, or have advance notice of or coordinate with Lockwood, or any other Investment Manager or sub-manager to purchase affiliated securities, to purchase securities through a KIS affiliate, or to purchase securities underwritten by a KIS affiliate; and, does not receive compensation in the event an Investment Manager was to purchase such securities. Nevertheless, the benefits to KIS's affiliates may create a potential conflict of interest, however, it did not and does not

affect KIS's or Lockwood's decision to include these products in a managed account program and these investment vehicles are subject to KIS's and Lockwood's respective due diligence criteria.

In addition, Lockwood is an indirect, wholly owned subsidiary of BNY Mellon. According to Lockwood's Form ADV Part 2A brochure, BNY Mellon common stock may be contained in the mutual funds which are part of the Key Digital Program's models. This may create a conflict of interest. Lockwood represents in its Form ADV Part 2A that this did not and does not affect Lockwood's decision to include these managers or their products in their managed account program, and that these managers and their products are subject to Lockwood's due diligence. For further information please see Lockwood's Form ADV Part 2A.

## **Item 7: Client Information Provided to Portfolio Managers**

Privacy is an important issue. KeyCorp's Privacy Policy is initially given to the Client upon the opening of an account and is subsequently provided at least annually thereafter and also upon request to KIS advisory Clients. KIS solicits information concerning a Client's name, address, financial situation, investment experience, tax status, tax reporting information and other personal non-public information. KIS will ask for this prior to recommending a wrap account and on an annual basis thereafter. KIS will provide that information to participating third-party service providers so that they may service the Client's account. The third-party service provider may then provide it to the portfolio manager, if any, for account servicing purposes. Please review Lockwood's Form ADV Part 2A for further information on this item. In addition, KIS will also provide such Client information to Pershing or other service providers as necessary in connection with the performance of services for Client accounts.

## **Item 8: Client Contact with Portfolio Managers**

Clients should first contact the KIS Client Service Center in order to arrange a direct consultation between the Client and Lockwood. For further information on contacting portfolio managers please read carefully Lockwood's Form ADV Part 2A.

## **Item 9: Additional Information**

### **(1) Disciplinary Information**

On January 27, 2016 KIS entered into a Letter of Acceptance, Waiver and Consent to conclude an investigation by the Financial Industry Regulatory Authority, Inc. (FINRA). Without admitting or denying FINRA's findings, KIS consented to a censure, a fine of \$100,000, restitution of \$100,247.02, and to FINRA's findings that KIS in its broker-dealer operations failed to identify and apply sales charge discounts to certain customers' eligible purchases of unit investment trusts (UIT) resulting in customers paying excessive sales charges of approximately \$95,254.34. The findings stated that KIS has already paid restitution to all affected customers in addition to interest of \$4,992.68. The findings also stated with respect to price discounts for UIT rollover transactions that KIS failed to establish, maintain and enforce a supervisory system and written supervisory procedures reasonably designed so that customers received rollover discounts on all eligible UIT purchases. None of these findings apply to the Key Digital Program described in this Form ADV Part 2A Appendix 1.

On September 17, 2018, Lockwood disclosed that it had amended Item 9 of its Form ADV Part 2A Appendix 1 Wrap Fee Program Brochure to disclose administrative proceedings by the Securities and Exchange Commission ("SEC") against Lockwood for failure to adopt and implement policies and

procedures reasonably designed to provide clients or their investment managers with material information about third party portfolio manager's "trading away" practices in Lockwood's separately managed account wrap fee program ("Wrap Program") and the full extent of the costs of choosing certain portfolio managers in those Wrap Programs. Lockwood was ordered to cease and desist from committing or causing any violations and any future violations of Section 206(4) of the Investment Advisers Act of 1940 and Rule 206(4)-7 thereunder. Lockwood paid a civil money penalty in the amount of \$200,000 to the SEC.

## **(2) Other Financial Industry Activities and Affiliations**

KeyCorp, one of the nation's largest bank holding companies, is the sole owner of KIS through its subsidiary KeyBank National Association ("KeyBank").

KIS's principal business is as an introducing broker-dealer registered with the U.S. Securities and Exchange Commission, a member of the Financial Industry Regulatory Authority, and various other regulatory bodies. As a broker-dealer, KIS may provide a variety of services (including non-advisory services) and render advice as to the value and/or advisability of purchasing or selling securities, without receiving special compensation and solely incidental to the conduct of its business as a broker-dealer.

KIS also provides other advisory services through the programs as described in its separate Form ADV Part 2A Appendix 1 brochure. Certain of KIS's affiliates also provide investment banking, foreign exchange, interest rate risk and equity risk management services and equity and fixed income proprietary research.

KIS representatives may also act as insurance agents for the sale of insurance products and policies that are available through KeyCorp Insurance Agency USA Inc., an affiliated insurance agency. KIS representatives may recommend the purchase of insurance products to Clients and may receive commissions in connection with such purchases.

Various affiliates of KIS sponsor investment-related limited partnerships and limited liability companies and serve as general partner and manager, respectively, of such entities. KIS generally does not recommend that its advisory Clients invest in these entities and has no arrangements that are material to its advisory business or its Clients with any of these entities, or with their affiliated sponsors with respect to such entities.

KeyCorp's bank and trust company subsidiaries offer personal and corporate trust services, personal financial services, access to mutual funds, cash management services, investment banking and capital markets products, and international banking services. Through its bank, trust company and registered investment subsidiaries, KeyCorp provides investment management services to Clients that include large corporate and public retirement plans, foundations and endowments, high net worth individuals and Taft-Hartley plans. In addition, KeyCorp's national banking subsidiary, KeyBank National Association, is a registered municipal advisor.

KeyBanc Capital Markets, Inc. is an affiliated broker-dealer registered with the United States Securities and Exchange Commission and a member of the Financial Industry Regulatory Authority. It provides brokerage services to institutional Clients and also provides investment banking services. It does not provide services to KIS but may to certain managers or sub-managers in KIS's advisory program.

## **(3) Code of Ethics**

As discussed below, KIS has in place an Investment Advisory Code of Ethics that provides for KIS and its representatives to exercise their fiduciary duty to Clients to act in the best interest of the Client and always place the Client's interests first and foremost. KIS takes seriously its compliance and regulatory obligations and requires all staff to comply with such rules and regulations, as well as with KIS' policies and procedures.

Further, KIS strives to handle Clients' non-public information in such a way to protect information from falling into hands that have no business reason to know such information and provides Clients with KeyCorp's Privacy Policy. As such, KIS maintains a Code of Ethics for its representatives.

The Code of Ethics contains provisions for standards of business conduct in order to comply with federal securities laws, personal securities reporting requirements, pre-approval procedures for certain transactions, code violations reporting requirements, and safeguarding of material non-public information about Client transactions. Further, KIS' Code of Ethics establishes KIS' expectation for business conduct.

KIS' Code of Ethics is distributed to each representative at the time of hire/contract, and as the Code is modified. In addition, KIS requires an annual certification by all representatives regarding their understanding and compliance with the Code of Ethics. KIS also supplements the Code with annual training and on-going monitoring of employee activity.

KIS's representatives also adhere to KeyCorp's Code of Ethics. All representatives must acknowledge the terms of both Codes, as amended, annually.

A copy of KIS's Code of Ethics will be provided to any Client or prospective Client upon request to our Compliance Department at 1-888-547-2968.

### **Participation or Interest in Client Transactions**

KIS registered representatives must execute securities transactions through KIS.

Related persons of KIS (any advisory affiliate and any person that is under common control with KIS) can buy or sell securities identical to those securities recommended to Clients. Therefore, related persons will have an interest or position in certain securities that are also recommended and bought or sold to Clients. The policy of KIS is that related persons shall not put their interests before a Client's interest. A KIS representative may not trade ahead of Clients or trade in such a way to obtain a better price for themselves than for Clients. KIS is required to maintain a list of all securities holdings for its associated persons. Further, associated persons are prohibited from trading on non-public information or sharing such information. KIS and its associated persons are required to conduct their securities and investment advisory business in accordance with all applicable Federal and State securities regulations.

In accordance with Section 204A of the Investment Advisers Act of 1940, KIS also maintains and enforces written policies and procedures reasonably designed to prevent the misuse of non-public information by KIS or any person associated with KIS. Further, the Code of Ethics contains prohibitions against such transactions.

No KIS representative or related person is permitted to recommend securities to advisory accounts, or buy or sell securities for advisory accounts at or about the same time that the representative or related person buys or sells the same securities for the representative's own or related person's account.

KIS requires that all registered employees' brokerage accounts be held at KIS. If an employee cannot obtain needed services at KIS, it requires copies of all brokerage statements be provided to it directly from the third-party broker.

## **(4) Review of Accounts**

As set forth in Item 4, KIS has established an Investment Advisory Sub-Committee of senior KIS managers to review third party service providers and their advisory products on an annual basis to ensure general

suitability and that the respective advisory product's investment performance is appropriate. KIS will contact you annually to ensure that your investment in the Key Digital Program is still a suitable investment for you. Clients are urged to contact KIS if any significant change in their financial situation occurs so that their account may be reviewed.

Generally, for each month in which there is activity in a Client's account, or, if there is no activity, on a quarterly basis, Clients receive through Pershing a written account statement which includes a summary of transactions, an inventory of holdings, and other information. The data contained in those statements has not been verified by KIS. Clients also receive brokerage confirmations unless this option is waived by the Client.

Lockwood monitors and reviews their Clients' accounts pursuant to their own compliance and supervisory systems of account review. Please read carefully Lockwood's Form ADV Part 2A.

## **(5) Client Referrals and Other Compensation**

KIS does not pay referral fees to any third party that is not supervised by it. Certain compensation plans which its parent, KeyBank, sponsors are discretionary bonus plans. Revenues from KIS may be one of many factors (most of them not securities related) that determine the amount of the bonus under the plan. This revenue might be affected by a referral from a non-supervised banker and thus might affect the payout to that banker. However, referrals by that banker or any other banker may not be taken into account in determining bonus payments.

## **(6) Financial Information**

KIS does not require its Clients to pre-pay more than \$1,200 in fees per Client six months in advance.

KIS is not aware of any financial condition that is reasonably likely to impair its ability to meet its contractual commitments to Clients.

KIS has never filed or been the subject of a bankruptcy petition.