

## **PART II (A) of FORM ADV: FIRM BROCHURE**

### **FIRM BROCHURE**

#### **Item 1: Cover Page**

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Date of Brochure:	March 29, 2019

The Firm Brochure (Brochure) provides information about the qualifications and business practices of Discretionary Management Services, LLC (DMS). If you have any questions about the content of this Brochure, you may contact Adam Strumpf, Chief Compliance Officer, [astrumpf@demarche.com](mailto:astrumpf@demarche.com), or at (913) 981-1345.

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. DMS is a registered investment adviser with the SEC. However, registration does not imply a certain level of skill or training. Additional information about DMS is also available on the SEC's website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).

#### **Item 2: Material Changes**

There were no material changes since the last brochure date, March 29, 2018.

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### **Item 3: Table of Contents**

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## **PART II (A) of FORM ADV: FIRM BROCHURE**

### **Item 4: Advisory Business**

#### **Advisory Business and Principal Owners**

DMS is a private, independent investment advisory firm formally established in 2007 to provide discretionary investment management services to institutional investors. It is an affiliated investment management company of the institutional investment consulting firm DeMarche Associates, Inc., (DeMarche). It is registered in the State of Kansas as a Limited Liability Company.

The majority owner of DMS is Thomas C. Woolwine. The Robert F. Marchesi Family Trust is the largest minority owner.

#### **Types of Advisory Services**

DMS's principal business is to provide discretionary investment management services to institutional clients. In discretionary arrangements, DMS assumes from clients the responsibility for investment manager selection and tactical and portfolio rebalancing. DMS also provides tactical restructuring advisory services to institutional clients on a non-discretionary basis.

DMS tailors its services to the specific needs of its clients. Clients establish an investment policy by which assets are to be managed and may impose restrictions on investing in certain securities or types of securities.

DMS does not participate in wrap fee programs.

As of December 31, 2018, DMS provided investment management services to clients representing \$322,042,414 on a discretionary basis. There are no non-discretionary assets held by DMS.

### **Item 5: Fees and Compensation**

#### **Investment Consulting and Management Fees**

DMS charges fees in two ways: (1) as a percentage of assets under management (AUM), and (2) as a flat fixed fee.

##### **Percentage of AUM**

DMS charges for Outsourced Chief Investment Officer (OCIO) services as a percentage of AUM based upon asset size, number of accounts, and complexity of the investment policy. Fee percentages may range from .05% to .70% of AUM on an annual basis.

##### **Flat Fixed Fee**

DMS may negotiate a flat fixed fee with clients for investment services, dependent upon the value of the client's assets under advisement, complexity of portfolio, travel required, number of meetings per year, and various other relevant factors.

##### **Performance Based Fee**

DMS may accept performance based fees in limited circumstances for investment services, provided that the client meets the qualifications for such fees. A performance fee arrangement may create an incentive for an advisor to make riskier recommendations or investments than would be made under a different arrangement. Such fee arrangements may also create an incentive to favor higher fee paying accounts over other accounts in the allocation of investment opportunities. We have procedures designed and implemented to ensure that all clients are treated

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fairly and equally, and to prevent any conflict from influencing the allocation of investment opportunities among clients.

Fees for all of DMS engagements are billed in arrears. DMS OCIO services charges a client quarterly based upon the value of the client's AUM as of the last day of the previous quarter. In the event the contract with DMS is terminated prior to the end of the agreed upon period, DMS will prorate the fee accordingly and either bill the pro-rated fee to the client or reimburse the client for the pro-rated amount already paid.

Outside of the annual fee paid to DMS, clients may also incur additional charges from other service providers, such as investment manager fees or mutual fund expenses, transaction costs, custodial fees, actuarial expenses, recordkeeping, legal or other fees not covered within the DMS contract. These fees are in addition to the fees paid by the client to DMS. None of DMS's supervised persons receives compensation for the sale of securities or other investment products, nor by recommending managers for selection.

### **Item 6: Performance-Based Fees and Side-By-Side Management**

From time to time, a client may opt for a performance based fee which will be negotiated between the client and DMS.

DMS does not offer side-by-side management.

### **Item 7: Types of Clients**

DMS provides its services to institutional clients such as pension and profit sharing plans, trusts, estates, charitable organizations, corporations, other business entities and high-net worth individuals. There is no minimum account size, but there is a minimum annual fee of \$50,000 per client for DMS services. Fees and minimums are negotiable.

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

Investing in securities involves risk of loss that clients should be prepared to bear. DMS clients' assets are typically diversified by asset class and investment style. Material risks such as market risk, interest rate risk, default risk, liquidity risk, and inflation risk are discussed with each client at the total fund, asset class, and security levels as part of the consultative process.

#### **Methods of Analysis**

DMS uses internally developed research and analysis of the markets and economic conditions to oversee client portfolios. Through a facilities and services agreement with DeMarche, the firm has access to security, market and economic databases for research. Sources of information DMS uses to make recommendations are research materials prepared by DeMarche and others, corporate rating services, the DeMarche's proprietary investment manager database and financial publications. The methods of security and investment analyses used by the firm include fundamental and quantitative, technical and cyclical analysis.

#### **Developing and Monitoring Investment Strategies**

DMS's service is a dynamic global macro strategy using a three-step investment process:

1. The first step in the process is to establish goals and objectives and define benchmark targets/ranges for the client's portfolio. An optimal portfolio structure is identified that provides the greatest potential for achieving return objectives for a given level of risk, developed through efficient frontier modeling. DMS assists the client in determining expectations for returns and tolerance for risk. During this phase DMS reviews with the client's Board the characteristics of the different asset classes available for investment,

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discusses the advantages (rewards) and disadvantages (risks) of each, and may use questionnaires to identify and quantify individual trustee expectations and concerns. DMS uses mean variance optimization modeling techniques. DMS identifies a range of portfolios that provide the lowest performance variability for the required rate of return. Ultimately clients determine their specific investment policy, including the identification of asset class targets and ranges, and DMS manages the portfolio within those guidelines.

2. For the second step, DMS implements the investment policy by determining which current managers, if applicable, should be retained and what changes or additions are needed. DMS selects active managers to manage core sub-allocations predominately using DeMarche's Manager Review Committee (MARC) approved manager universe. DMS executes tactical shifts, within client-established asset class ranges and based upon portfolio managers' consensus on opportunities in the current environment. ETFs/index funds are typically utilized for tactical moves to minimize the frequency of disruptions to managers. In the implementation phase, DMS makes every effort to retain existing managers in order to keep transition costs low and not disrupt long-term relationships needlessly. However, if changes are necessary, DMS selects appropriate managers and finds the most cost effective way to transition assets. Strategies used to implement investment advice are primarily long-term in nature, but may occasionally include short-term purchases.
3. Third, DMS provides ongoing monitoring of managers relative to their specific written investment guidelines and performance objectives. The DMS Investment Committee meets at least weekly to review portfolio position (sub-classes and subadvisers) versus policy targets and ranges. Managers are monitored based on the stability of their organization and their adherence to their stated investment style and process and relative to agreed-upon performance benchmarks. Portfolio results are presented quarterly to clients in person or via conference calls.

### **Item 9: Disciplinary Information**

DMS is regulated by the Securities & Exchange Commission (SEC).

Kansas City Brokerage (KCB), an affiliate, is reviewed by the self-regulatory agency, FINRA. In January 2014, FINRA conducted a procedural examination of KCB. Subsequently, FINRA cited KCB for non-conformance of portions of regulatory rules 3310, 3012, 3130 and 2010. The examination covered the years of 2010 – 2013. KCB entered into a Letter of Acceptance, Waiver and Consent with FINRA agreeing to a settlement of \$5,000.

### **Item 10: Other Financial Industry Activities or Affiliations**

Some of DMS's management persons are registered as a broker/dealer or a registered representative of a broker/dealer.

Affiliates of DMS include DeMarche, Kansas City Brokerage, Inc. (KCB) and ENDEX Capital Management LLC (ENDEX). A brief description and ownership of each affiliate is as follows:

#### **DeMarche**

DeMarche is an independently owned investment research and consulting firm and has been in business since 1975. The primary business of DeMarche is to furnish investment advice to institutional investors through consultations. The Robert F. Marchesi Family Trust currently owns a majority interest in DeMarche. Thomas C. Woolwine, Timothy J. Marchesi and Donald H. Lennard each have a minority interest. Through a facilities and services agreement with DeMarche, DMS receives certain back-office services such as accounting, investment research, IT and compliance.

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KCB is a subsidiary of DeMarche. Established in 1993, KCB accommodates clients who choose to use third-party payer or directed brokerage services as a method of paying for investment consulting services. KCB is an introducing broker/dealer firm that is registered with the Securities and Exchange Commission and is a member of the Financial Industry Regulatory Authority (FINRA). All trade execution and clearing services are provided for its customers through a fully disclosed clearing arrangement with Cowen Execution Services, LLC. DeMarche owns a majority interest in KCB. The Robert F. Marchesi Family Trust owns a minority interest. DMS does not allow clients to direct brokerage through KCB to pay for investment management services or have any other arrangements with KCB.

### **ENDEX**

ENDEX is a private, independently-owned investment advisory firm organized in 1997 in the State of Kansas as a Limited Liability Company (LLC). ENDEX provides discretionary investment management services in portfolios of exchange-listed and over-the-counter equity securities. ENDEX is a registered investment advisor with the Securities & Exchange Commission. ENDEX is owned by three individuals, all of whom serve on the ENDEX Board of Managers. Principal owners are Julie A. Marchesi, Christine M. Rudicile and Timothy J. Marchesi. ENDEX and DeMarche have a facilities and services agreement, under which certain back-office services are provided to ENDEX by DeMarche, including among others, accounting, investment research, IT and compliance.

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

For many years, DMS has maintained written policies and controls to minimize potential conflicts of interest and, it believes, covering a much broader area of control than called for by regulators. Controls include management oversight, internal policies and procedures, consultant training, and both required and voluntary disclosure to clients. DMS policies address not only potential conflicts, but also areas such as compensation, entertainment, manager conferences, etc.

DMS clients include corporations, public entities, endowment funds and foundations, investment managers and individuals. Providing services to these varied groups may create potential conflicts of interest. A copy of DMS policies pursuant to minimizing potential conflicts of interest is available to any client or prospective client upon request to the Chief Compliance Officer as referenced in Item # 1.

DMS, or any related person, does not recommend to clients, or buy or sell for client accounts, securities in which DMS, or a related person, has material financial interest.

### **Item 12: Brokerage Practices**

Broker-dealers are selected based on their cost (per share of the transaction), their efficiency and responsiveness in completing transactions. The securities DMS trades for client accounts have liquid markets so the cost per share is fairly standardized.

DMS does not receive research or other products or services in connection with client securities transactions. DMS does not receive client referrals from a broker/dealer or third party for recommending broker/dealers. DMS does not recommend, request, or require that a client direct DMS to execute transactions through a specified broker-dealer.

Purchase and sale orders for client accounts are aggregated with the broker as needed. Many clients have unique portfolios, and therefore, not all clients will trade the same securities on a given day.

Directed brokerage may cost clients more money and may not achieve most favorable execution of client transactions.

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### **Item 13: Review of Accounts**

The Chief Investment Officer and Portfolio Managers of DMS are responsible for the internal reviews of accounts and the underlying investment managers or funds. Weekly reviews determine if managers and funds are performing in line with their investment style benchmarks.

DMS prepares written quarterly performance reports and delivers and presents such reports after the close of each calendar quarter. Reports include a capital markets review, an asset allocation summary, an asset distribution breakout by market value, a comparison of the investment performance versus appropriate benchmarks, risk analysis, performance attribution, and investment manager style analysis. Reviews with clients are done by DMS representatives, which could include the President and Portfolio Managers in person or via conference call.

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

DMS may compensate DeMarche Consultants for client referrals. No one who is not a client provides an economic benefit to DMS for providing investment advice or other advisory service to clients.

### **Item 15: Custody**

DMS does not have custody of client funds or securities. DMS urges clients to compare account statements they receive from their qualified custodian(s) and investment managers with any report they receive from DMS.

### **Item 16: Investment Discretion**

DMS is authorized by its clients to determine without specific consent the securities and amounts of securities to be purchased or sold, subject only to client guidelines. Clients may place limitations on DMS discretionary authority through investment guidelines and through the client agreement for services that is required prior to any discretionary relationship with DMS.

### **Item 17: Voting Client Securities**

DMS does not vote client securities. Clients will typically receive their proxies directly from their custodian.

### **Item 18: Financial Information**

DMS does not require or solicit prepayment of client fees. DMS does not have custody of client funds or securities. DMS has not been the subject of a bankruptcy petition at any time and is not aware of any condition that is reasonably likely to impair its ability to meet contractual commitments to clients.