



## **Kays Financial Advisory Corporation**

**PART 2A of FORM ADV: Firm Brochure**

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### **Kays Financial Advisory Corporation**

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This brochure provides information about the qualifications and business practices of Kays Financial Advisory Corporation ("KFAC"). If you have any questions about the contents of this brochure, please contact us at (770) 951-9001 or [skays@scottkays.com](mailto:skays@scottkays.com). The information in this brochure has not been approved or verified by the United States Securities and Exchange Commission or by any state authority.

Additional information about Kays Financial Advisory Corporation also is available on the SEC's website at [www.AdviserInfo.sec.gov](http://www.AdviserInfo.sec.gov).

### ***Material Changes***

There have been no material changes in the KFAC Brochure since the last annual update on March 19, 2018.

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## ***Advisory Business***

### General Information

Kays Financial Advisory Corporation was formed in 1985 and provides financial planning and portfolio management services to its clients. At the outset of each client relationship, KFAC spends time with the client, asking questions, discussing the client's investment experience and financial circumstances, and broadly identifying major goals of the client.

For those clients who retain KFAC for portfolio management services, KFAC generally develops with each client an Investment Policy Statement ("IPS") based on all the information initially gathered. The IPS reflects KFAC's understanding of the client's risk tolerance and identifies the types of investments and strategies that will be utilized in managing the client's portfolio.

Clients may elect to retain KFAC to prepare a financial plan in addition to portfolio management, or as a stand-alone service. For clients utilizing KFAC's full-time discretionary investment management service with at least \$500,000 under management, financial planning services are generally included in the cost of the investment management service.

### Portfolio Management

At the beginning of a client investment management relationship, KFAC meets with the client, asks questions, gathers information and performs research and analysis as necessary to develop the client's Investment Policy Statement ("IPS"). The IPS will be updated from time to time when requested by the client, or when determined to be necessary or advisable by KFAC based on updates to the client's financial position or other circumstances.

To implement the client's investment plan, KFAC will generally manage the client's portfolio on a discretionary basis. As a discretionary investment adviser, KFAC will have the authority to supervise and direct portfolio trades without prior consultation with the client.

In certain situations, KFAC may advise the client regarding their investments on a non-discretionary basis. This is not the typical way KFAC advises clients on their investments. Generally, this non-discretionary advice is given for clients on a temporary basis or for clients who also have other assets managed by KFAC on a discretionary basis. Clients who choose a non-discretionary arrangement must generally be contacted prior to the execution of any trade affecting these assets. This can result in a delay in executing recommended trades, which could adversely affect the performance of the portfolio. This delay also normally means the affected account(s) will not be able to participate in block trades, a practice designed to enhance the execution quality, timing and/or cost for all accounts included in the block. In a non-discretionary arrangement, the client retains the responsibility for the final decision on all actions taken with respect to the portfolio. KFAC can provide non-discretionary services on an hourly basis or as a semi-annual consultation.

Notwithstanding the foregoing, clients can impose certain written restrictions on KFAC in the management of their investment portfolios, such as prohibiting the inclusion of certain types of investments in an investment portfolio or prohibiting the sale of certain investments held in the account at the commencement of the relationship. Each client should note, however, that restrictions imposed by a client can adversely affect the composition and performance of the client's investment portfolios. Each client should also note that his or her investment portfolio is treated individually by giving consideration to each purchase or sale for the client's account. For these and other reasons, performance of client investment portfolios with client-imposed restrictions within the same investment objectives, goals and/or risk tolerance may differ, and clients should not expect that the composition or performance of their investment portfolios would necessarily be consistent with similar clients of KFAC. KFAC can decline to manage a portfolio where it deems the restrictions to be too burdensome.

#### Financial Planning

KFAC provides Financial Planning services as described below. In most cases, this service is coupled with ongoing portfolio management for clients with assets under KFAC's management of at least \$500,000. However, in some circumstances it may be provided as a stand-alone service and billed separately.

In both of the above circumstances, Financial Planning includes advice that addresses one or more areas of a client's financial situation, such as estate planning, risk management, budgeting and cash flow analysis, retirement planning, education funding, and investment portfolio design and ongoing management. Often, the advice provided will be reviewed with the client in a meeting and delivered in the form of a written analysis with associated recommendations. Depending on a client's particular situation, financial planning includes some or all of the following:

- Gathering factual information concerning the client's personal and financial situation;
- Assisting the client in establishing financial goals and objectives;
- Analyzing the client's present situation and anticipated future activities in light of the client's financial goals and objectives;
- Identifying problems foreseen in the accomplishment of these financial goals and objectives and offering alternative solutions to the problems;
- Making recommendations to help achieve retirement plan goals and objectives;

- Designing an investment portfolio to help meet the goals and objectives of the client;
- Providing estate planning advice;
- Assessing risk and reviewing basic health, life and disability insurance needs; and
- Reviewing goals and objectives and measuring progress toward these goals.

Once Financial Planning advice is given, the client can choose, but is under no obligation, to act upon any of the recommendations made by KFAC.

#### Principal Owners

Scott A. Kays is the principal owner of KFAC. Please see ***“Brochure Supplement(s)”***, Appendix A, for more information on Mr. Kays and other individuals who formulate investment advice and have direct contact with clients or have discretionary authority over client accounts.

#### Type and Value of Assets Currently Managed

As of December 31, 2018, KFAC managed \$495,076,338 on a discretionary basis. KFAC does not manage non-discretionary client assets on a continuous and regular supervisory basis.

#### ***Fees and Compensation***

##### General Fee Information

Fees paid to KFAC are exclusive of all custodial and transaction costs paid to the client’s custodian, brokers or other third-party consultants. Fees paid to KFAC are also separate and distinct from the fees and expenses charged by mutual funds, ETFs (exchange traded funds) or other investment pools to their shareholders (generally including a management fee and fund expenses, as described in each fund’s prospectus or offering materials). The client should review all fees charged by funds, brokers, KFAC and others to fully understand the total amount of fees paid by the client for investment and financial-related services.

##### Financial Planning Fees

Such advice, or consulting work, will be billed separately and on an hourly basis at the following rates: Partner/Senior Advisor (\$275); Junior Financial Planner (\$175); Administrative (\$125). The Client will receive an invoice, payable at the time of receipt, for time spent on such services provided to the Client. Generally, the Client utilizing KFAC’s full-time discretionary investment management services with at least \$500,000 under management is not charged the separate hourly fees listed above.

The following financial planning services are available separately for any Client that does not desire full-time investment money management.

*One-Time Meeting:* This is a one-time, 1 to 2-hour meeting and *Financial Physical* designed to provide a basic review of the client’s overall financial planning situation. The fee charged is \$275.

*Special Financial Planning Project Retainer:* This service is designed to only deal with specific issues selected by the client and KFAC after the initial meeting. The Special Financial Planning Project includes an initial meeting, and a final meeting to review the financial plan with email/phone support until the plan is reviewed and accepted by client. The fee charged is based on KFAC’s hourly billing rates listed above.

### Portfolio Management Fees

The current annual fee schedule, based on a percentage of assets under management, is as follows. The percentage charged does not apply to the entire balance, but to each balance within a particular rate bracket.

\$0 - \$1,000,000	1.00%
\$1,000,001 - \$2,000,000	0.75%
\$2,000,001 - \$5,000,000	0.65%
\$5,000,001 +	0.50%

For accounts with margin, KFAC typically excludes negative cash amounts for billing purposes.

The minimum portfolio value is generally set at \$500,000. Minimum annual fees can apply. KFAC may, at its discretion, make exceptions to the foregoing or negotiate special fee arrangements where KFAC deems it appropriate under the circumstances.

Portfolio management fees are generally payable quarterly, in advance. For new clients, if the billing start date is other than the first day of a quarter, the initial management fee will be pro-rated through the end of the initial quarter. A pro-rated fee will also be charged according to this schedule in the following quarter for additional investments made during a calendar quarter if the deposit made is \$100,000.00 or higher. Conversely, if withdrawals are made of \$100,000 or higher, a prorated refund will generate in the following quarter. Fees are normally debited directly from client account(s), unless other arrangements are made.

For all fees billed directly to the Client (as opposed to fees billed to a Client's brokerage account), a penalty fee of 1.5% monthly of the invoiced amount shall be charged to the Client for every 30 days the Client is remiss in paying their invoice.

Either KFAC or the client can terminate their Investment Management Agreement at any time, subject to any written notice requirements in the agreement. In the event of termination, any paid but unearned fees will be promptly refunded to the client, and any fees due to KFAC from the client will be invoiced or deducted from the client's account prior to termination.

### Other Compensation

William Alan McKnight, Principal and Senior Financial Advisor, teaches at Southern New Hampshire University.

Bryan Strike, Principal and Senior Financial Advisor, teaches education and review courses for Kaplan.

### ***Performance-Based Fees and Side-By-Side Management***

KFAC does not have any performance-based fee arrangements.

## ***Types of Clients***

KFAC serves individuals, pension and profit-sharing plans, trusts, and estates. With some exceptions, the minimum portfolio value eligible for conventional investment advisory services is \$500,000. Minimum annual fees may apply. Under certain circumstances and in its sole discretion, KFAC may negotiate such minimums.

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

### **Methods of Analysis**

In accordance with the Investment Plan, KFAC generally selects mutual funds, ETFs, individual stocks, options and other investment vehicles for client accounts.

Mutual funds and ETFs are generally evaluated and selected based on a variety of factors, including, without limitation, past performance, fee structure, portfolio manager, fund sponsor, overall ratings for safety and returns, and other factors.

KFAC has developed a computerized analytical system that allows the firm to analyze domestic equity sectors by developing an analysis on a stock-by-stock basis. This analysis examines investments' fundamentals, valuations, and growth prospects.

In making selections of individual stocks for client portfolios, KFAC incorporates some or all of the following types of analysis into its decision-making process:

Fundamental Analysis – This is the primary analytical method used by KFAC. It involves review of the business and financial information about an issuer. Without limitation, the following factors generally will be considered:

- Financial strength ratios;
- Price-to-earnings ratios;
- Dividend yields; and
- Growth rate-to-price earnings ratios

KFAC can at times also utilize:

1. Charting Analysis – involves gathering and processing price and volume information for a particular security. KFAC's charting analysis includes, without limitation:

- Mathematical analysis;
- Graphing charts; and estimations of future price movements based on perceived patterns and trends.

2. Technical Analysis – involves studying past price patterns and trends in the financial markets to predict the direction of both the overall market and specific stocks.

3. Cyclical Analysis – is a type of technical analysis that involves evaluating recurring price patterns and trends.

### Investment Strategies

KFAC's strategic approach is to invest each portfolio in accordance with the IPS that has been developed specifically for each client. This means that the following strategies may be used in varying combinations over time for a given client, depending upon the client's individual circumstances.

Long-Term Purchases – securities purchased with the expectation that the value of those securities will grow over a relatively long period of time, generally greater than one year.

Short-Term Purchases – securities purchased with the expectation that they will be sold within a relatively short period of time, generally less than one year, to take advantage of the securities' short-term price fluctuations.

Short Sales – a securities transaction in which an investor sells securities he or she borrowed in anticipation of a price decline. The investor is then required to return an equal number of shares at some point in the future. A short seller will profit if the stock goes down in price. This type of strategy would generally be executed through a pooled vehicle, such as an inverse ETF, or by selling a call option.

Margin Transactions – a securities transaction in which an investor borrows money to purchase a security, in which case the security serves as collateral on the loan. This type of strategy would generally be executed through a pooled vehicle, such as an ETF.

Options Trading/Writing - a securities transaction that involves buying or selling (writing) an option. If you write an option, and the buyer exercises the option, you are obligated to purchase or deliver a specified number of shares at a specified price at the expiration of the option regardless of the market value of the security at expiration of the option. Buying an option gives you the right to purchase or sell a specified number of shares at a specified price until the date of expiration of the option regardless of the market value of the security at expiration of the option. KFAC offers a portfolio in which covered call options are written on an S&P 500 index ETF. KFAC may also buy call or put options or write put options as part of this strategy. It may also use a different ETF as the underlying security on which options are written.

As an overarching strategy, KFAC tries to overweight assets in the portfolio that we believe possess superior investment potential and underweight areas that we believe possess lesser investment potential, taking into account the risk level of each of the investments. Less aggressive portfolios would generally have an allocation to fixed income investments as well. Portfolios can also have an exposure to "alternative investments".

### Risk of Loss

While KFAC seeks to diversify clients' investment portfolios across various asset classes consistent with their Investment Plans in an effort to reduce risk of loss, all investment portfolios are subject to risks. Accordingly, there can be no assurance that client investment portfolios will be able to fully meet their investment objectives and goals, or that investments will not lose money.

Below is a description of several of the principal risks that client investment portfolios face.

*Management Risks.* While KFAC manages client investment portfolios based on KFAC's experience, research and proprietary methods, the values of client investment portfolios will change daily based on the performance of the underlying ETFs and other securities in which they are invested.

Accordingly, client investment portfolios are subject to the risk that KFAC allocates assets to asset classes that are adversely affected by unanticipated market movements and the risk that KFAC's specific investment choices could underperform their relevant indexes.

*Risks of Investments in Mutual Funds, ETFs and Other Investment Pools.* As described above, KFAC may invest client portfolios in mutual funds, ETFs and other investment pools ("pooled investment funds"). Investments in pooled investment funds are generally less risky than investing in individual securities because of their diversified portfolios; however, these investments are still subject to risks associated with the markets in which they invest. In addition, pooled investment funds' success can be related to the skills of their particular managers and their performance in managing their funds. Pooled investment funds are also subject to risks due to regulatory restrictions applicable to registered investment companies under the Investment Company Act of 1940.

*Equity Market Risks.* KFAC will invest portions of client assets into equity investments, either into pooled investment funds that invest in the stock market or directly in individual stocks. As noted above, while pooled investments have diversified portfolios that can make them less risky than investments in individual securities, funds that invest in stocks and other equity securities are nevertheless subject to the risks of the stock market. These risks include, without limitation, the risks that stock values will decline due to daily fluctuations in the markets, and that stock values will decline over longer periods (e.g., bear markets) due to general market declines in stock prices, regardless of any individual security's prospects.

*Fixed Income Risks.* KFAC may invest portions of client assets directly into fixed income instruments, such as bonds and notes, or may invest in pooled investment funds that invest in bonds and notes. While investing in fixed income instruments, either directly or through pooled investment funds, is generally less volatile than investing in stock (equity) markets, fixed income investments nevertheless are subject to risks. These risks include, without limitation, interest rate risks (risks that changes in interest rates will devalue the investments), credit risks (risks of default by borrowers), or maturity risk (risks that bonds or notes will change value from the time of issuance to maturity).

*Foreign Securities Risks.* KFAC may invest portions of client assets into pooled investment funds that invest internationally. While foreign investments are important to the diversification of client investment portfolios, they carry risks that may be different from U.S. investments. For example, foreign investments may not be subject to uniform audit, financial reporting or disclosure standards, practices, or requirements comparable to those found in the U.S. Foreign investments are also subject to foreign withholding taxes and the risk of adverse changes in investment or exchange control regulations. Finally, foreign investments may involve currency risk, which is the risk that the value of the foreign security will decrease due to changes in the relative value of the U.S. dollar and the security's underlying foreign currency.

#### Investment Committee

KFAC has an investment committee, which is made up of individuals selected by the Chief Investment Officer (CIO) and Portfolio Manager (PM). The Chief Compliance Officer (CCO) regularly attends these meetings as well. The committee is an advisory group, not a decision-making group. It generally meets every two weeks. One purpose of the meetings is to inform members of what the CIO and Portfolio Manager are considering in terms of new investments and to share their thoughts with the group on the market situation, the economic situation, specific investment sectors and specific investments within those sectors. The group provides feedback to the CIO and PM regarding these



topics. Additionally, members may bring up new topics for discussion as well as recommend investments to be considered.

### ***Disciplinary Information***

KFAC has no disciplinary events to report.

### ***Other Financial Industry Activities and Affiliations***

KFAC participates in client referral arrangements where it can compensate unaffiliated third parties for client referrals.

At times, KFAC can act as a sub-adviser to other investment advisory firms. At such times, KFAC shall bill the client separately from the primary adviser. The fees are distinct from those referenced in the ***Portfolio Management Fees*** section and are negotiated on a case-by-case basis.

KFAC can also engage the services of third-party institutional money managers through various custodians. The fees charged by these managers will be separate from those charged by KFAC. The third-party management fees will be pre-negotiated. KFAC will bill the client separately.

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

#### **Code of Ethics and Personal Trading**

KFAC has adopted a Code of Ethics (“the Code”), the full text of which is available to you upon request. KFAC’s Code has several goals. First, the Code is designed to assist KFAC in complying with applicable laws and regulations governing its investment advisory business. Under the Investment Advisers Act of 1940, KFAC owes fiduciary duties to its clients. Pursuant to these fiduciary duties, the Code requires KFAC-associated persons to act with honesty, good faith and fair dealing in working with clients. In addition, the Code prohibits associated persons from trading or otherwise acting on insider information.

Next, the Code sets forth guidelines for professional standards for KFAC’s associated persons (managers, officers, and employees). Under the Code’s Professional Standards, KFAC expects its associated persons to put the interests of its clients first, ahead of personal interests. In this regard, KFAC-associated persons are not to take inappropriate advantage of their positions in relation to KFAC clients.

Third, the Code sets forth policies and procedures to monitor and review the personal trading activities of associated persons. From time to time, KFAC’s associated persons can invest in the same securities recommended to clients. Under its Code, KFAC has adopted procedures designed to reduce or eliminate conflicts of interest that this could potentially cause. The Code’s personal trading policies include procedures for limitations on personal securities transactions of associated persons and the reporting and review of such trading. These policies are designed to discourage and prohibit personal trading that would disadvantage clients. The Code also provides for disciplinary action as appropriate for violations.

### Participation or Interest in Client Transactions

As outlined above, KFAC has adopted procedures to protect client interests when its associated persons invest in the same securities as those selected for or recommended to clients. In the event of any identified potential trading conflicts of interest, KFAC's goal is to place client interests first.

Consistent with the foregoing, KFAC maintains policies regarding participation in initial public offerings (IPOs) and private placements in order to comply with applicable laws and avoid conflicts with client transactions. If a KFAC-associated person wishes to participate in an IPO or invest in a private placement, he or she must submit a pre-clearance request and obtain the approval of the Chief Compliance Officer. If associated persons trade with client accounts (e.g., in a bundled or aggregated trade), and the trade is not filled in its entirety, the associated person's shares will be removed from the block, and the balance of shares will be allocated among client accounts in accordance with KFAC's written policy.

### ***Brokerage Practices***

#### Best Execution and Benefits of Brokerage Selection

When given discretion to select the brokerage firm that will execute orders in client accounts, KFAC seeks "best execution" for client trades, which is a combination of a number of factors, including, without limitation, quality of execution, services provided and commission rates. Therefore, KFAC may use or recommend the use of brokers who do not charge the lowest available commission in the recognition of securities transaction services or quality of execution.

KFAC participates in Schwab's Institutional ("SI") service program. There is no direct link between the investment advice KFAC provides and participation in the SI program. KFAC receives certain benefits from the SI program. None of these benefits or services are in connection with the volume of transactions conducted through Schwab. Many of these services may be used to service all or a substantial number of KFAC's accounts, including accounts not held at Schwab. Schwab may also make available to KFAC other services intended to help KFAC manage and further develop its business. These services may include consulting, publications and conferences on practice management, information technology, business succession, regulatory compliance and marketing. Schwab may contribute financially to events held by KFAC and provide consulting on these events. In addition, Schwab may make available, arrange, and/or pay for these types of services to be rendered to KFAC by independent third parties. Schwab may discount or waive fees it would otherwise charge for some of these services and/or pay all or a part of the fees of a third-party providing these services to KFAC. Finally, participation in SI provides KFAC with access to mutual funds which normally require significantly higher minimum initial investments or are normally available only to institutional investors.

#### Aggregated Trade Policy

Where feasible, KFAC will place batch trades when buying and selling the same security for more than one account.

Orders for the same security entered on behalf of more than one client on the same day will generally be aggregated (i.e., blocked or bunched) subject to the aggregation being in the best interests of all participating clients. KFAC can begin trading in a security before KFAC has completed client allocations in order to take maximum advantage of the time available during the day to trade in order to have as little impact on the market as practicable. Subsequent orders for the same security entered during the same trading day after the final allocation has been sent to the broker will not be

aggregated with the original block trade. One exception is that subsequent orders may be aggregated with filled orders if the market price for the security has not materially changed. All clients participating in each aggregated order shall receive the average price and subject to minimum ticket charges, pay their own commissions (some brokerage firms offer lower commissions for larger accounts). If the entire order is filled, clients shall receive their portion of the allocation specified on the trade ticket. All allocations shall be made prior to the trade settling, and generally before the market opens the day after the trades were executed.

In the event an order is “partially filled”, the allocation shall be made in the best interests of all the clients in the order, taking into account all relevant factors, including, but not limited to, the size of each client’s allocation, clients’ liquidity needs, and previous allocations.

### ***Review of Accounts***

KFAC generally uses “model portfolios”, which are reviewed on an on-going basis, in individual clients’ accounts. Individual client accounts are reviewed for consistency with the appropriate model whenever “mass trades” are made for a client’s model portfolio(s). Managed portfolios may be reviewed more often if requested by the client, upon receipt of information material to the management of the portfolio, or at any time such review is deemed necessary or advisable by KFAC. Also, portfolios are reviewed upon client request or upon receipt of information material to the management of a client portfolio, such as a change in a client’s individual situation. Scott Kays (Managing Principal), Alan McKnight (Principal), Nicholas Coppola (Sr. Portfolio Manager), Bryan Strike (Principal), Andrew Medders (Principal), and Brad Mundy (Sr. Financial Advisor) review all accounts as appropriate and may be assisted in the review process by other staff members.

For those clients to whom KFAC provides separate financial planning and/or consulting services, reviews are conducted on an as needed or agreed upon basis. Such reviews are conducted by one of KFAC’s investment adviser representatives or principals.

Account custodians are responsible for providing monthly or quarterly account statements which reflect the positions (and current pricing) in each account as well as transactions in each account, including fees paid from an account. Account custodians also provide prompt confirmation of all trading activity, and year-end tax statements, such as 1099 forms. In addition, KFAC provides quarterly reports for each managed portfolio. This written report normally includes a summary of portfolio holdings and performance results. Additional reports are available at the request of the client.

### ***Client Referrals and Other Compensation***

From time to time, KFAC may enter into arrangements with third parties (“Solicitors”) to identify and refer potential clients to KFAC. Consistent with legal requirements under the Investment Advisers Act of 1940, as amended, KFAC enters into written agreements with Solicitors under which, among other things, Solicitors are required to disclose their compensation arrangements to prospective clients before they enter into an agreement with KFAC.

KFAC compensates third parties who refer clients to KFAC in compliance with Rule 206(4)-3 under the Advisers Act with respect to the use of solicitors. If KFAC accepts a new client who is introduced by a third-party solicitor, KFAC will pay such third-party solicitor a fee that is based upon the assets

the client places with KFAC. Prior to entering into any investment advisory agreement with a client through these referral agreements, KFAC will determine if the solicitor has provided the client with a written disclosure document stating that the solicitor is being compensated for referring KFAC and the terms of the compensation arrangement. The placement fee may survive for the duration of such Client's relationship with KFAC. Clients introduced by a third-party solicitor generally will be subject to the same fee schedule as other clients and generally will bear no additional costs as result of the relationship between KFAC and such third-party solicitor.

As noted above, KFAC can receive some benefits from Schwab based on the amount of client assets held at Schwab. Please see ***"Brokerage Practices"*** for more information.

KFAC receives client referrals from Charles Schwab & Co., Inc. ("Schwab") through KFAC's participation in Schwab Advisor Network™ ("the Service"). The Service is designed to help investors find an independent investment advisor. Schwab is a broker-dealer independent of and unaffiliated with KFAC. Schwab does not supervise KFAC and has no responsibility for KFAC's management of clients' portfolios or KFAC's other advice or services. KFAC pays Schwab fees to receive client referrals through the Service. KFAC's participation in the Service can raise potential conflicts of interest.

KFAC pays Schwab a Participation Fee on all referred clients' accounts that are maintained in custody at Schwab and a Non-Schwab Custody Fee on all accounts that are transferred to another custodian. The Participation Fee paid by KFAC is a percentage of the value of the assets in the client's account, subject to a minimum Participation Fee. KFAC pays Schwab the Participation Fee for so long as the referred client's account remains in custody at Schwab. The Participation Fee is billed to KFAC. The Participation Fee is paid by KFAC and not the client. KFAC has agreed not to charge clients referred through the Service fees or costs greater than the fees or costs KFAC charges clients with similar portfolios who were not referred through the Service.

KFAC generally pays Schwab a Non-Schwab Custody Fee if custody of a referred client's account or assets in the account is transferred from Schwab. This Fee does not apply if the client was solely responsible for the decision not to maintain custody at Schwab. The Non-Schwab Custody Fee is a one-time payment equal to a percentage of the assets placed with a custodian other than Schwab. The Non-Schwab Custody Fee is higher than the Participation Fees KFAC generally would pay in a single year. Thus, KFAC will have an incentive to recommend that client accounts be held in custody at Schwab.

The Participation and Non-Schwab Custody Fees will be based on assets in accounts of KFAC clients who were referred by Schwab and those referred clients' family members living in the same household. Thus, KFAC will have incentives to encourage household members of clients referred through the Service to maintain custody of their accounts at Schwab and execute transactions at Schwab.

For accounts of KFAC's clients maintained in custody at Schwab, Schwab will not charge the client separately for custody but will receive compensation from KFAC's clients in the form of commissions or other transaction-related compensation on securities trades executed through Schwab. Schwab will also receive a fee (generally lower than the applicable commission on trades it executes) for clearance and settlement of trades executed through broker-dealers other than Schwab. Schwab's fees for trades executed at other broker-dealers are in addition to the other broker-dealer's fees. Thus, KFAC can have an incentive to cause trades to be executed through Schwab rather than another broker-dealer. KFAC, nevertheless, acknowledges its duty to seek the best execution of trades for

client accounts. Trades for client accounts held in custody at Schwab may be executed through a different broker-dealer than trades for KFAC's other clients. Thus, trades for accounts custodied at Schwab may be executed at different times and different prices than trades for other accounts that are executed at other broker-dealers.

At KFAC, Financial Advisors are compensated for their management of client assets. The Advisor's fee is calculated as a percentage of revenue generated by that client. Financial Advisors are registered as investment adviser representatives in the applicable states. KFAC employees, owners, and officers are also eligible for a New Money Bonus when they refer a prospect who ultimately hires KFAC to manage their assets. The New Money Bonus is calculated as a percentage of the revenue generated for the first year. This solicitation arrangement is addressed in the employment agreements for the affected employees, owners, and officers.

### ***Custody***

Schwab is the custodian of nearly all client accounts at KFAC. From time to time, however, clients may select an alternate broker to hold accounts in custody. In any case, it is the custodian's responsibility to provide clients with confirmations of trading activity, tax forms, and at least quarterly account statements. Clients are advised to review this information carefully, and to notify KFAC of any questions or concerns. Clients are also asked to promptly notify KFAC if the custodian fails to provide statements on each account held.

From time to time, and in accordance with KFAC's agreement with clients, KFAC will provide additional reports. The account balances reflected on these reports should be compared to the balances shown on the brokerage statements to ensure accuracy. At times there can be small differences due to the timing of dividend reporting and trades.

There is the potential of receipt of clients' class action checks, tax refunds, dividend payments and stock certificates. Should this occur, KFAC will promptly forward the funds or securities to the client or return them to the sender, at no extra charge, within three (3) to five (5) business days of receiving them as appropriate.

In some instances, clients grant KFAC a Standing Letter of Authorization to move funds from one account to another account that is not identically registered. This is called a third-party money movement and can result in KFAC having custody of those funds.

### ***Investment Discretion***

As described in the "***Advisory Business***" section, KFAC may accept clients on a discretionary basis. For *discretionary accounts*, a Limited Power of Attorney ("LPOA") is executed by the client, giving KFAC the authority to carry out various activities in the account, generally including the following: trade execution; the ability to request first-party checks and journal transfers on behalf of the client; and the withdrawal of advisory fees directly from the account. KFAC then directs investment of the client's portfolio using its discretionary authority. The client can limit the terms of the LPOA to the extent consistent with the client's investment advisory agreement with KFAC and the requirements of the client's custodian.

KFAC may also advise clients on a non-discretionary, non-continuous basis, such as for hourly fee or legacy investment retainer clients. For these non-discretionary accounts, the client may execute an LPOA, which allows KFAC to carry out trade recommendations and approved actions in the portfolio. However, in accordance with the investment advisory agreement between KFAC and the client, KFAC does not implement trading recommendations or other actions in the account unless and until the client has approved the recommendation or action. As with discretionary accounts, clients can limit the terms of the LPOA, subject to KFAC's agreement with the client and the requirements of the client's custodian.

### ***Voting Client Securities***

As a policy and in accordance with KFAC's client agreement, KFAC does not vote proxies related to securities held in client accounts. The custodian of the account will normally provide proxy materials directly to the client. Clients can contact KFAC with questions relating to proxy procedures and proposals; however, KFAC generally does not research particular proxy proposals.

### ***Financial Information***

KFAC does not require nor solicit prepayment of more than \$1,200 in fees per client, six months or more in advance, and therefore has no required disclosure for this item.