



## **FIRM BROCHURE**

(Part 2A of Form ADV)

**August 27, 2021**

### **KCM Investment Advisors, LLC**

**CRD # 109629**

300 Drakes Landing Road, Suite 210

Greenbrae, CA 94904

Telephone: (415) 461-7788

Email: [compliance@kcmadvisors.com](mailto:compliance@kcmadvisors.com)

[www.kcmadvisors.com/](http://www.kcmadvisors.com/)

**Part 2A of Form ADV (the “Brochure”) provides information about the qualifications and business practices of KCM Investment Advisors, LLC. If you have any questions about the contents of this Brochure, please contact us at (415) 461-7788 and/or [www.kcmadvisors.com](http://www.kcmadvisors.com). The information in this Brochure has not been approved or verified by the United States Securities and Exchange Commission or by any state securities authority.**

**KCM Investment Advisors, LLC is registered as an investment adviser with Securities and Exchange Commission; however, such registration does not imply a certain level of skill or training and no inference to the contrary should be made.**

**Additional information about KCM Investment Advisors, LLC is also available on the SEC’s website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).**

## **ITEM 1: COVER PAGE**

Please refer to previous page.

## **ITEM 2: MATERIAL CHANGES**

This Brochure is being updated to change the Chief Compliance Officer from Janice Powell to Tina Mitchell in Item 10.

The last version of this Brochure was dated June 24, 2021. KCM encourages each client and our prospective clients to read this Brochure in its entirety prior to engaging KCM for any advisory services.

Pursuant to SEC rules, KCM will ensure that clients receive a summary of any material changes to this Brochure within 120 days of the close of our fiscal year, along with a copy of this Brochure or an offer to provide the Brochure. As we experience material changes in the future, we will send you a summary of our “Material Changes”, along with an offer to provide the Brochure under separate cover. For more information about KCM, please contact us at (415) 461-7788.

Additional information regarding KCM and its investment adviser representatives is on the SEC’s website at <https://www.adviserinfo.sec.gov>.

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#### ITEM 4: ADVISORY BUSINESS

##### **Description of Firm**

KCM Investment Advisors LLC (“KCM”) is a San Francisco Bay Area-based Registered Investment Adviser, located in San Rafael, California offering a variety of portfolio solutions. We began managing domestic equity and fixed income accounts in 1996 and now serve a diverse range of clients including high net-worth individuals and families, pensions, corporate, foundations, and endowments from coast to coast.

##### **Principal Owners**

KCM is 100% privately held and has no outside ownership. The principal owner of the firm is Jay A. Kellett, who also serves as the Chief Executive Officer (“CEO”) and Chief Investment Officer (“CIO”).

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

###### **Investment Advisory Services**

KCM provides investment advisory services to its clients. These supervisory services primarily consist of the following activities:

- Creation and management of customized, and structured portfolios based upon the client’s investment objectives and restrictions;
- Periodic re-balancing of accounts managed by KCM consistent with the account’s investment objectives and restrictions;
- Implementation of the investment strategies by executing portfolio transactions as needed; and
- Furnishing client reports concerning separate account activity, strategy, and performance.

While many clients come to KCM looking for one particular strategy, most individual accounts have chosen to tailor their accounts with a customized combination of equities, investment quality fixed income, preferred stocks and exchange-traded funds (ETFs). While not typical, on rare and special occasions, and when appropriate for the particular client, Portfolio Managers of KCM can or will recommend investment in open and closed-end mutual funds.

KCM’s investment advisory services are comprised of two stages. During the first stage, KCM gathers essential information from the client in order to conduct an analysis of the client’s current investment situation. At the conclusion of this assessment, KCM will make certain investment recommendations based upon its findings and the client’s expressed needs. In stage two, KCM will implement those agreed upon recommendations and actively manage the client’s account.

After the client discusses the proposed recommendations by KCM, KCM will implement such recommendations as mutually agreed upon. The client will receive those advisory services as

outlined within KCM's investment advisory agreement.

KCM manages all client assets on a fully discretionary basis. In exercising full discretionary authority KCM selects, without first obtaining client's permission: the securities to be bought and sold; the amounts of securities to be transacted and whether it will be individually or block traded.

KCM selects investments based on analysis performed by KCM, and once implemented, are monitored to ensure the investments continue to meet KCM's overall investment objective and criteria. For investment selection, KCM advises on investments based upon research of market data and ongoing market and performance analytics. Once this fundamental analysis is completed, securities can be added to client portfolios and thereafter, are continuously monitored for imbalances or shifts.

#### Private Fund Investment Management

KCM serves as Investment Adviser to the Cedar Ridge Investors Fund I, LP for accredited investors in need of customized investment solutions. KCM's investment management services provided to the Fund are detailed in the Fund's offering documents, which includes an Operating Agreement, private placement memorandum, subscription agreement, and all amendments thereto ("Offering Documents"). KCM manages the Fund's assets based on the investment objectives and restrictions specific to the Fund, which are outlined in the Fund's Offering Documents. The Cedar Ridge Investors Fund I, LP is a pooled investment vehicle, so KCM does not manage the Fund's assets based on the individual needs and objectives of the investors in the Fund.

KCM will maintain complete investment discretion over the Fund's assets and will utilize a qualified custodian to provide clearing and custody services and a third-party administrator to provide client statements and accounting controls. The Funds will be audited annually by an independent certified public accounting firm.

#### Advisory Agreements

Prior to engaging KCM to provide investment advisory services, the client will be required to enter into one or more written agreements with KCM setting forth the terms and conditions under which KCM shall render its services (collectively the "Agreement").

In accordance with Rule 204-3 under the Investment Advisers Act of 1940, as amended ("Advisers Act"), KCM will provide a brochure and one or more brochure supplements to each client or prospective client prior to or contemporaneously with the execution of an investment advisory agreement.

The Agreement between KCM and the client will continue in effect until terminated by either party pursuant to the terms of the Agreement. KCM's fee shall be prorated through the date of termination as defined in the Agreement and any remaining balance shall be charged or refunded to the client, as appropriate, in a timely manner.

Neither KCM nor the client can assign the Agreement without the consent of the other party. Transactions that do not result in a change of actual control or management of KCM shall not be considered an assignment.

The Cedar Ridge Investors Fund I, LP has entered into an advisory agreement with KCM to manage the assets of the fund. This agreement cannot be assigned without consent of the parties and can be terminated by either party in accordance with the requirements outlined in the agreement.

**Amount of Client Assets Managed**

As of December 31, 2020, the following represents the amount of client assets under management by Frugal on a discretionary and non-discretionary basis:

Type of Account	Assets Under Management ("AUM")
Discretionary	\$ 4,873,228,594.00
Non-Discretionary	\$0.00
Total:	<b>\$ 4,873,228,594.00</b>

**ITEM 5: FEES AND COMPENSATION**

**Fees for Investment Advisory Services**

KCM provides professional management of stock and bond portfolios, for a fee based on the market values of the portfolios at the end of each quarter, payable quarterly, in arrears. Applicant's fees are negotiable. No particular ranges have been pre-established concerning accounts that are the subject of negotiated fees. Applicant's basic annual fee structure is:

Cash Management	0.50%
Investment Grade Fixed Income	0.50%
Equities, ADRs, ETFs, ETNs	0.90%
Open and Closed-End Mutual Funds,	0.90%
Preferred Stock and Hybrid Securities	0.90%

Investment advisory fees are billed quarterly generally in arrears based upon the market value of the account at the end of the current quarter. In some cases, a client is also billed for the balance of the quarter in which his account was opened in addition to the following full quarter. The term "quarter" refers to either a calendar quarter or the client's fiscal quarter. The initial quarterly fee for new clients is pro-rated based upon the date the account is opened. Clients of KCM are subject to a 30-day termination fee based upon assets under management at the date of termination. This fee can or will be charged at the sole discretion of the Advisor.

Fees will be debited directly from client accounts however, in certain case by case instances and where pre-arranged with the concurrence of KCM, clients are provided the option to have their fees billed separately.

Advisory fees are negotiable and arrangements with any particular client can differ from those described above. In addition, for family and friends of the Firm, the Firm can, in its sole discretion, reduce or waive management fees in their entirety. There are no fees payable before service is provided. Clients and/or KCM can terminate the investment advisory contract upon 30-day written notice. KCM does not provide clients advice as to the tax deductibility of its advisor's fees. Clients are directed to consult a tax professional to determine the potential tax deductibility of our fees.

Special circumstances can or will cause fees to vary from the above schedule. KCM will "Household" accounts, based on the address of record for each account, in order to combine assets under management, which in turn, could lower the management fee assessed by KCM.

KCM at times, will not charge a fee to small accounts of a client because of the fee the client is paying on the total relationship. KCM reserves the right to negotiate fees with clients. KCM can charge higher or lower fees than those described above with the consent and acceptance by Client.

***KCM reserves the right and can at its discretion charge lower fees than those agreed to and as described in the IMA (Investment Management Agreement). Cash and other asset classes can be charged at a lower rate, or no rate at all depending on certain client circumstance and other portfolio considerations. Further, KCM can adjust rates down (reduce) from the IMA rates without explicit written consent of Client.***

KCM's fees are exclusive of brokerage commissions, transaction fees, and other related costs and expenses which shall be incurred by the client. Such costs are exclusive of and in addition to KCM's fee, and KCM does not receive any portion of these costs. Please refer to Item 12 of this brochure regarding KCM's brokerage practices and the factors that KCM considers in selecting or recommending broker-dealers for client transactions and determining the reasonableness of their compensation. Furthermore, clients whose assets are invested in ETFs (Exchange Traded Funds), ETNs, (Exchange Traded Notes), Mutual Funds, and Money Market Accounts where a management fee is assessed as an expense, are in effect, paying two advisory fees. First, clients pay a regular quarterly fee on the money value of total assets under KCM's management, which includes the assets that are invested in the aforementioned funds. In addition, clients pay another fee to the investment adviser or sponsor of the fund based upon the amount of their investment in that fund.

#### Fees for Serving as Investment Adviser to the Cedar Ridge Investors Fund I, LP

KCM receives a quarterly management fee calculated at the annual rate of 1.5% per annum of each Limited Partner's or shareholder's capital account.

#### **ITEM 6: PERFORMANCE-BASED FEES AND SIDE-BY-SIDE MANAGEMENT**

KCM does not have any performance fee arrangements. If in the future KCM were to enter into such a fee arrangement with qualified clients, we will structure any performance or incentive fee arrangement subject to Section 205(a)(1) of the Investment Advisers Act of 1940.

## ITEM 7: TYPES OF CLIENTS

### *Description*

KCM provides portfolio management services to high-net-worth individuals, corporate pension and profit-sharing plans, charitable institutions, foundations, endowments, and trust program either through direct contract or through relationships with outside wealth managers and wrap sponsors.

### *Conditions for Managing Accounts*

KCM generally has a minimum account size of \$1,000,000 for opening a direct account, based on the product in which the client invests, subject to negotiations.

KCM presently acts and/or reserves the right in the future to act as a Sub-Advisor for other Investment Consultants, Investment Advisors, Registered Investment Advisors and to various broker and broker-dealers as a preferred provider or managed account provider. KCM has agreements with certain outside and independent firms whereby KCM agrees to manage accounts, which select KCM as an investment advisor. Under these agreements, the client typically will pay a single fee based on a percentage of assets under management. In some arrangements the client has a separate agreement with KCM and pays KCM separately. In other arrangements, the client will pay one fee to the referring broker or advisors which would include consulting, manager search, performance measurement, custodial services with a single fee based on a percentage of assets under management. In some programs, brokerage commissions can be included in the single fee.

The Cedar Ridge Investors Fund I, LP is limited partnership operating as a private pooled investment vehicle and a claiming registration exemption under the Securities Act of 1933 and the Investment Company Act of 1940. Generally, the investors in the Fund will meet the definition of “accredited investor” as defined in the Securities Act of 1933 or “qualified client” as defined in the Investment Advisers Act of 1940 and include individuals, other investment entities, profit-sharing plans, trusts, estates, charitable organizations, other corporations or business entities, or family offices. In addition, owners, principals and other employees of KCM can invest in the Cedar Ridge Investors Fund I, LPs.

The various requirements for investing in the Cedar Ridge Investors Fund I, LP, including the minimum investment size, are set forth in the Fund’s Offering Documents. Cedar Ridge GP, LLC., as the General Partner for the Cedar Ridge Investors Fund I, LP general partner has the authority to allow investment commitments below the minimum amount set forth in the Offering Documents.

Pre-qualified investors will receive a copy of the Fund Offering Documents and all investors are required to execute a Subscription Agreement containing certain representations and warranties and setting forth the terms and conditions of an investment in the Cedar Ridge Investors Fund I, LP.



## **ITEM 8: METHODS OF ANALYSIS, INVESTMENT STRATEGIES AND RISK OF LOSS**

### ***Methods of Analysis***

Every method of analysis has its own inherent risks. To perform an accurate market analysis KCM must have access to current/new market information. KCM has no control over the dissemination rate of market information; therefore, unbeknownst to KCM, certain analyses can be compiled with outdated market information, severely limiting the value of KCM's analysis. Furthermore, an accurate market analysis can only produce a forecast of the direction of market values. There can be no assurances that a forecasted change in market value will materialize into actionable and/or profitable investment opportunities.

In analyzing exchange-traded funds ("ETFs"), individual equity securities ("stocks"), and individual bonds, KCM will use various sources of information, including data provided by research providers, ETF, and other online and subscription resources. We cannot guarantee that any such strategy or analysis will prove profitable or successful.

Both fundamental and quantitative valuation factors are considered in establishing positions in securities and in monitoring their progress. KCM is keenly interested in the future prospects of the company and the industry in which it competes.

### ***Investment Strategies***

KCM's primary investment strategies - Long Term Purchases, Short Term Purchases, and Trading are fundamental investment strategies. However, every investment strategy has its own inherent risks and limitations. For example, longer term investment strategies require a longer investment time period to allow for the strategy to potentially develop. Shorter term investment strategies require a shorter investment time period to potentially develop but, as a result of more frequent trading, can incur higher transactional costs when compared to a longer-term investment strategy. Trading, an investment strategy that requires the purchase and sale of securities within a thirty (30) day investment time period, involves a very short investment time period but will incur higher transaction costs when compared to a short-term investment strategy and substantially higher transaction costs than a longer-term investment strategy.

Please Note: Investment Risk. Different types of investments involve varying degrees of risk, and it should not be assumed that future performance of any specific investment or investment strategy (including the investments and/or investment strategies recommended or undertaken by KCM) will be profitable or equal any specific performance level(s).

Currently, KCM primarily allocates client investment assets among various stocks, ETFs, and individual bonds, on a discretionary basis in accordance with the client's designated investment objective(s). As stated above in Item 4, while not typical, on rare and special occasions, and when appropriate for the particular client, Portfolio Managers of KCM can or will recommend investment in open and closed-end mutual funds.

KCM generally uses diversification to optimize the risk and potential return of a portfolio. More

specifically, we expect to utilize multiple asset classes, investment styles, market capitalizations, sectors, and regions to provide diversification.

KCM's general investment strategy is to seek a total return proportionate with the level of risk the client decides to take. We assist each client in developing an investment plan, by seeking to understand the client's general financial situation, investment objectives, liquidity needs, time horizon, return objective, and risk tolerance, as well as any special considerations and/or restrictions the client chooses to place on the management of the client accounts. Based on this information, we determine the securities that comprise each client's portfolio and then make investment strategy recommendations that are consistent with the client's investment plan.

Client portfolios with similar investment objectives and asset allocation goals can at times, own the same or different securities. Income tax factors also influence KCM's investment decisions (however, note that KCM does not give tax advice).

Each portfolio will maintain a target asset allocation. Generally, we review client portfolios periodically to evaluate how closely the actual allocation matches the target allocation. When we consider the variance excessive, we will take appropriate actions (by buying or selling securities) to bring the actual allocation within acceptable range of the target allocation. We refer to this process as "rebalancing." The process of rebalancing offers a systematic process to buy or sell securities when investment categories (asset classes) vary from their target allocation.

KCM believes that superior investment results are driven by capitalizing on market mispricings. For both equity, fixed income and balanced portfolios, KCM employs what it considers are the strengths of fundamental, technical and cyclical macro analysis.

The investment strategy for the Cedar Ridge Investors Fund I, LP is outlined in the Offering Documents, which should be read fully by each investor. As mentioned in Item 4 above, the Fund is a pooled investment vehicle, so KCM does not manage the Fund's assets based on the individual needs and objectives of the investors in the Fund.

### ***Risk of Loss***

Prior to opening an account with KCM, each client should carefully consider:

- That investing in securities involves risk of loss, which clients should be prepared to bear;
- That securities markets experience varying degrees of volatility;
- That over time, the client's assets can fluctuate and at any time be worth more or less than the amount invested; and
- That clients should only commit assets that are long-term in nature, typically a minimum of a ten-year time horizon.

We do not guarantee that any investment strategy will meet its investment objectives or that an account will not suffer losses.

The prices of securities held in client accounts and the income they generate can decline in response to certain events taking place around the world. These include events directly involving the issuers of securities held as underlying assets of ETFs in a client's account, conditions affecting the general economy, and overall market changes. Other contributing factors include local, regional, or global political, social, or economic instability and governmental or governmental agency responses to economic conditions. Finally, currency, interest rate, and commodity price fluctuations can also affect security prices and income. For additional risk information please see appropriate ETF prospectuses.

For the Cedar Ridge Investors Fund I, LP, there is no assurance that the investment objectives of the Fund will be achieved or that any investor in the Fund will receive a return on their investment. Due to the potential for volatility, along with the risks involved with the Fund's underlying investments, the actual return and value of an investor's contribution can fluctuate and at any point in time be worth more or less than the amount originally invested. Prospective investors are provided with the Offering Documents and other documentation that outline the investment objectives, risks, conflicts, fees, and other important information about the Fund. It is important that each potential qualified investor fully read the Offering Documents prior to investing.

#### Risks of Securities

When investing in ETFs, investors have many choices. Each type has different features and different risks and rewards. Generally, the higher the potential return, the higher the risk of loss.

#### Exchange-Traded Funds (ETFs)

An ETF is a type of investment company (usually, an open-end fund or unit investment trust) containing a basket of stocks or bonds that usually tracks a specific index or sector. An ETF is similar to an index mutual fund in that it will primarily invest in securities of companies that are included in a selected market index or that fall into a particular sector. Unlike traditional mutual funds, which can only be redeemed at the end of a trading day, ETFs trade throughout the day on an exchange. Like stock and bond mutual funds, the prices of the underlying securities and the overall market can affect ETF prices. Similarly, factors affecting a particular industry segment can affect ETF prices that track specific sectors. An investment in an ETF could lose money over short or even long periods. You should expect the ETFs share price and total return to fluctuate within a wide range, like the fluctuations of the overall stock market.

#### Interest Rate Risk

Interest rate risk refers to the risk that the market value of bonds will go down when interest rates go up. Because of this risk, investors can lose money in any bond fund or Bond ETF. Interest rate risk applies to investments in insured bonds and U.S. Treasury Bonds. Longer-term bonds tend to have higher interest rate risks.

#### Credit Risk

Credit risk refers to the risk that companies or other issuers can fail to pay their debts (including the debt owed to holders of their bonds). Consequently, this affects, mutual funds and ETFs that hold these bonds. Credit risk is less of a factor for investments in insured bonds or U.S. Treasury

Bonds. By contrast, those that invest in the bonds of companies with poor credit ratings generally will be subject to higher risk.

#### Prepayment Risk

Issuers can choose to pay off debt earlier than the stated maturity date on a bond. For example, if interest rates fall, a bond issuer can decide to “retire” its debt and issue new bonds that pay a lower rate. When this happens, proceeds from the sale of individual bonds or a bond fund will not be able to be reinvested the proceeds in an investment with as high a return or yield.

#### Stock ETFs

A stock ETF’s values can rise and fall quickly (and dramatically) over short or even long periods. You should expect a stock ETF’s share price and total return to fluctuate within a wide range. Overall stock market risk poses the greatest potential danger for investors in stock ETFs. Stock markets tend to move in cycles, with periods of rising prices and periods of falling prices. Stock prices can fluctuate for a broad range of reasons—such as the overall state of the economy or demand for particular products or services.

#### Other Considerations / Holdings

Occasionally, it will be decided to keep some of the portfolio assets that existed before the management account was established. These other investments can include: Common Stock, Preferred Stock, Individual Bonds and Certificates of Deposit.

KCM does not represent, guarantee or imply that the services or methods of analysis employed by us can or will predict future results, successfully identify market tops or bottoms, or insulate clients from losses due to market corrections or declines.

Clients are advised that they should only commit assets for management that can be invested for the long term, that volatility from investing can occur, and that all investing is subject to risk. Consequently, the value of an account can at any time be worth more or less than the amount invested. KCM does not represent, guarantee or imply that the services or methods of analysis employed by us can or will predict future results, successfully identify market tops or bottoms, or insulate clients from losses due to market corrections or declines.

### **ITEM 9: DISCIPLINARY INFORMATION**

Registered investment advisers are required to disclose all material facts regarding any legal or disciplinary events that would be material to your evaluation of KCM or the integrity of KCM’s management. KCM has no information applicable to this Item.

### **ITEM 10: OTHER FINANCIAL INDUSTRY ACTIVITIES AND AFFILIATIONS**

As described above, KCM serves as Investment Adviser to the Cedar Ridge Investors Fund I, LP, a Delaware limited Partnership established in March of 2004. In such a capacity, the Firm can or will offer the Fund as a recommendation to KCM clients. Clients should be aware that the receipt of performance fees within the Fund by KCM creates an inherent conflict of interest,

whereby KCM can be influenced to recommend the Fund to its clients and potentially earn greater compensation. The client is under no obligation to act upon any such recommendation. Further, our independently contracted Chief Compliance Officer, Tina Mitchell, is not affiliated with KCM. More information regarding our Chief Compliance Officer can be found on the Security and Exchange Commission's website at [www. https://adviserinfo.sec.gov/](http://www.adviserinfo.sec.gov/)

## **ITEM 11: CODE OF ETHICS, PARTICIPATION OR INTEREST IN CLIENT TRANSACTIONS AND PERSONAL TRADING**

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

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

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

KCM's employees and managers are required to follow the Company's Code of Ethics. Subject to satisfying this company policy and applicable laws, managers and employees of KCM can trade for their own accounts in securities, which are recommended to and/or purchased for their clients. KCM has adopted a written Code of Ethics designed to prevent any potential conflict of interest with client transactions. Thus, the Code designates certain classes of securities as exempt securities and certain classes of transactions as exempt transactions, based upon a determination that these would not materially interfere with the best interests of KCM's clients.

Additionally, in appropriate circumstances and consistent with a client's investment objectives, KCM anticipates that it will cause accounts over which it has full management authority to effect, and will recommend to investment advisory clients, the purchase or sale of securities in which accounts of KCM's other clients are at the same time effecting a purchase or sale in the same securities. Prior to entering into a specific transaction, a determination will be made by the persons performing the advisory duties for such account that participation in such transaction will most likely be relatively beneficial to such account.

### ***Cross Trading***

Cross-trading is a practice where buy and sell orders for the same asset are offset without recording the trade on the exchange.

KCM will only consider a cross-trade for unlisted fixed income securities. Further, Cross-trades between two non-ERISA or non-related clients are only permitted if there are no client restrictions on such trades and KCM is not acting as a broker or principal and will not receive direct or indirect compensation such as a commission (other than its regular advisory fee). As a result of the extensive regulations surrounding cross trades, the Chief Compliance Officer or

another member of the Senior Management Team must approve these transactions prior to execution.

### ***Personal Trading***

Employee trading is regularly monitored under the Code of Ethics in order to ensure employees comply with the Code of Ethics, and to ensure the Code of Ethics reasonably addresses conflicts of interest between KCM and its clients.

KCM's clients or prospective clients can request a copy of the firm's Code of Ethics by calling us at (415) 461-7788).

## **ITEM 12: BROKERAGE PRACTICES**

### **Selection Criteria**

#### **The Custodian and Brokers We Use**

KCM does not maintain custody of your assets that we manage although we can be deemed to have custody of your assets if you give us authority to withdraw assets from your account (see Item 15 – Custody, below). Your assets must be maintained in an account at a “qualified custodian,” generally a broker-dealer or bank. We typically recommend that our clients use Charles Schwab & Co., Inc. (“Schwab”), a FINRA-registered broker-dealer, member SIPC, as the qualified custodian. We are independently owned and operated and not affiliated with Schwab. Schwab will hold your assets in a brokerage account and buy and sell securities when we instruct them to. While we recommend that you use Schwab as custodian/broker, you will decide whether to do so and open your account with Schwab or another custodian by entering into an account agreement directly with them.

#### **How We Select Brokers/Custodians**

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

- Combination of transaction execution services along with asset custody services (generally without a separate fee for custody)
- Combination of transaction execution services along
- with asset custody services (generally without a separate fee for custody)
- Capability to execute, clear, and settle trades (buy and sell securities for your account)
- Capabilities to facilitate transfers and payments to and from accounts (wire transfers, check requests, bill payment, etc.)
- Breadth of investment products made available (stocks, bonds, mutual funds, exchange-traded funds (ETFs), etc.)
- Availability of investment research and tools that assist us in making investment decisions

- Quality of services
- Competitiveness of the price of those services (commission rates, margin interest rates, other fees, etc.) and willingness to negotiate them
- Reputation, financial strength, and stability of provider
- Their prior service to us and our other clients
- Availability of other products and services that benefit us, as discussed below (see “Products and Services Available to Us from Schwab”)

### Your Custody and Brokerage Costs

For our clients’ accounts it maintains, Schwab generally does not charge you separately for custody services but is compensated by charging you commissions or other fees on trades that it executes or that settle into your Schwab account. For some accounts, Schwab can charge you a percentage of the dollar amount of assets in the account in lieu of commissions. Schwab’s commission rates and asset-based fees applicable to our client accounts were negotiated based on our commitment to maintain a certain amount of our clients’ assets statement equity in accounts at Schwab. This commitment benefits you because the overall commission rates and asset-based fees you pay are lower than they would be if we had not made the commitment. In addition to commissions or asset-based fees Schwab charges you a flat dollar amount as a “prime broker” or “trade away” fee for each trade that we have executed by a different broker-dealer but where the securities bought or the funds from the securities sold are deposited (settled) into your Schwab account. These fees are in addition to the commissions or other compensation you pay the executing broker-dealer. Because of this, in order to minimize your trading costs, we have Schwab execute most trades for your account.

### Products and Services Available to Us

Schwab Advisor Services™ (formerly Schwab Institutional) is Schwab’s business serving independent investment advisory firms like us. They provide our clients and us with access to its institutional brokerage— trading, custody, reporting, and related services—many of which are not typically available to Schwab retail customers. Schwab also makes available various support services. Some of those services help us manage or administer our clients’ accounts, while others help us manage and grow our business. Here is a more detailed description of Schwab’s support services:

#### Services That Benefit You.

Schwab’s institutional brokerage services include access to a broad range of investment products, execution of securities transactions, and custody of client assets. The investment products available through Schwab include some to which we might not otherwise have access or that would require a significantly higher minimum initial investment by our clients. Schwab’s services described in this paragraph generally benefit you and your account.

#### Services That Can, or Will Not Directly Benefit You.

Schwab also makes available to us other products and services that benefit us but can, or will not directly benefit you or your account. These products and services assist us in managing and administering our clients' accounts. They include investment research, both Schwab's own and that of third parties. We can use this research to service all or some substantial number of our clients' accounts, including accounts not maintained at Schwab. In addition to investment research, Schwab also makes available software and other technology that: provide access to client account data (such as duplicate trade confirmations and account statements); facilitate trade execution and allocate aggregated trade orders for multiple client accounts; provide pricing and other market data; facilitate payment of our fees from our clients' accounts; and assist with back-office functions, recordkeeping, and client reporting.

Services That Generally Benefit Only Us.

Schwab also offers other services intended to help us manage and further develop our business enterprise. These services include:

- educational conferences and events;
- technology, compliance, legal, and business consulting;
- publications and conferences on practice management and business succession; and
- access to employee benefits providers, human capital consultants, and insurance providers.

Schwab can provide some of these services itself. In other cases, it will arrange for third-party vendors to provide the services to us. Schwab can also discount or waive its fees for some of these services or pay all or a part of a third party's fees. Schwab can also provide us with other benefits such as occasional business entertainment of our personnel.

KCM does not have any contractual arrangements in place and does not currently use brokerage commissions to obtain products or services which do not qualify for the safe harbor rules in Section 28(e) of the Act as above.

Research services furnished by brokers and dealers with whom KCM and its affiliates effect transactions can be beneficial to certain of the accounts advised by KCM. It is recognized that a particular account can or will be charged a commission paid to a firm who supplied research services not utilized by such account. However, KCM expects that each account will be benefited overall by such practice because each is receiving the benefit of research services and the execution of such transactions not otherwise available to it without the allocation of transactions based upon the recognition of the value to such research services. KCM assesses its commission policies, rates and allocations. This review considers the contributions and value of research services received from broker-dealers.

***Best Execution***

It is the policy and practice of KCM to strive for the best price and execution that are competitive in relation to the value of the transaction ("best execution"). In order to achieve best execution, KCM will use its best judgment to choose the broker-dealer most capable of providing the brokerage services necessary to obtain the best overall qualitative execution.

Although KCM will strive to achieve the best execution possible for client securities transactions, this does not require it to solicit competitive bids and KCM does not have an obligation to seek the lowest available commission cost. In seeking best execution, the



determinative factor is not the lowest possible cost, but whether the transaction represents the overall best qualitative execution, taking into consideration the full range of a broker-dealer's services, including among other things, the value of research provided, execution capability, commission rates, and responsiveness. Consistent with the foregoing, while KCM will seek competitive rates, it perhaps will not necessarily obtain the lowest possible commission rates for client transactions KCM is not required to negotiate "execution only" commission rates, thus the client can be deemed to be paying for research and related services (i.e., "soft dollars") provided by the broker which are included in the commission rate.

To ensure that brokerage firms recommended by KCM are conducting overall best qualitative execution, KCM will periodically (and no less often than annually) evaluate the trading process and brokers utilized. KCM's evaluation will consider the full range of brokerage services offered by the brokers, which can include, but is not limited to price, commission, timing, research, aggregated trades, capable floor brokers or traders, competent block trading coverage, ability to position, capital strength and stability, reliable and accurate communications and settlement processing, use of automation, knowledge of other buyers or sellers and administrative ability.

#### ***Research and other Soft Dollar Benefits***

In placing orders for the purchase and sale of securities for its clients, KCM seeks quality execution at favorable prices through responsible broker-dealers. In selecting broker-dealers to execute transactions, KCM considers such factors as the broker's reliability, the quality of its execution services, its financial condition, its commission rates on agency transactions, and the general brokerage and research services that it can or will provide. As authorized in Section 28(e) of the Securities Exchange Act of 1934, KCM can or will cause its clients to pay a broker-dealer that provides brokerage and research and portfolio analysis services to KCM an amount of commissions in excess of the commissions that another broker-dealer would have charged for effecting a transaction.

KCM does not have any contractual arrangements in place and does not currently use brokerage commissions to obtain products or services which do not qualify for the safe harbor rules in Section 28(e) of the Act as above.

Research services furnished by brokers and dealers with whom KCM and its affiliates effect transactions can be beneficial to certain of the accounts advised by KCM. It is recognized that a particular account can be charged a commission paid to a firm who supplied research services not utilized by such account. However, KCM expects that each account will be benefited overall by such practice because each is receiving the benefit of research services and the execution of such transactions not otherwise available to it without the allocation of transactions based upon the recognition of the value to such research services. KCM assesses its commission policies, rates and allocations. This review considers the contributions and value of research services received from broker-dealers.

The Advisor makes extensive use of computers, computer peripherals, software, and computer databases in its investment management and securities analysis process. KCM uses a centralized

portfolio management system, which includes block trading, portfolio management and securities price data collection.

Under KCM's "Section 28(e)" soft dollar policy, our research and trading departments have in the past and can in the future engage with the following research resources paid for by soft dollar transactions.

Bloomberg, (news, technical and fundamental analysis)  
Thomson Financial Eikon, (portfolio analytics and securities analysis)  
Advent Axy's (portfolio management, analysis)  
ISI Group (economics and portfolio strategy)  
Ned Davis Research (economics and portfolio strategy)

KCM conducts trades with brokers that provide internally generated proprietary research in the form of research reports on economic data, industries and individual firms. The research services can be useful in servicing any of the Advisor's accounts, but not all of the research can be useful to the account for which the particular transaction was effected. The Advisor does not allow for soft dollars to be used to correct trading errors. We maintain these policies regarding soft dollars are in full compliance with Section 28(e) of the Securities Exchange Act and the Advisor does not engage in any activity that is outside the scope of Section 28(e).

When it uses client brokerage commissions (or markups or markdowns) to obtain research or other products or services, it receives a benefit because it does not have to produce or pay for the research, products or services.

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

Brokerage transactions in OTC equity securities affected on behalf of our clients can sometimes be done on an agency basis rather than through market makers. Hence, clients pay commissions to broker-dealers for effecting such transactions and pay the market makers the mark-ups or mark-downs included in the offering or bid prices of the securities purchased or sold.

The role of the CEO as it pertains to soft dollar arrangements includes, but is not limited to (annually):

- Reviewing soft dollar arrangements with all brokers;
- Determining if the soft dollar arrangements are within the scope of Section 28(e) and approving them;
- Making appropriate mixed-use determinations and allocations for trade decisions that were supported by soft dollar research and trades that were not;
- Discussing and documenting the value of the research obtained with soft dollars;
- Monitoring soft dollar arrangements and bringing any material deviations from policy to the attention of the Chief Compliance Officer.

### ***Directed Brokerage***

If requested by a client, KCM can accept written direction from a client regarding the use of a particular broker-dealer to execute some or all transactions for the client. In that case, the client will negotiate terms and arrangements for the account with that broker-dealer, and KCM will not seek better execution services or prices from other broker-dealers or be able to "batch" client transactions for execution through other broker-dealers with orders for other accounts managed by KCM and KCM will have limited ability to ensure the broker-dealer selected by the client will provide best possible execution. As a result, the client can pay higher commissions or other transaction costs or greater spreads, or receive less favorable net prices, on transactions for the account than would otherwise be the case. Subject to its duty of best execution, KCM can decline a client's request to direct brokerage if, in KCM's sole discretion, such directed brokerage arrangements would result in additional operational difficulties or violate restrictions imposed by other broker-dealers.

### ***Trade Aggregation and Allocation***

Transactions for each client will be effected independently, unless KCM decides to purchase or sell the same securities for several clients at approximately the same time. KCM performs investment management services for various clients, some of which can have similar investment objectives. KCM can aggregate sale and purchase orders with other client accounts and proprietary (employee) accounts that have similar orders being made at the same time, if in KCM's judgment such aggregation is reasonably likely to result in an overall economic benefit to the affected accounts. Such benefits can include better transaction prices and lower trade execution costs. KCM can (but is not obligated to) combine or "batch" such orders to obtain best execution, to negotiate more favorable commission rates, or to allocate equitably among KCM's clients differences in prices and commissions or other transaction costs that might have been obtained had such orders been placed independently. If all aggregate orders do not fill at the same price, transactions will generally be averaged as to price and allocated among participating accounts pro rata to the purchase and sale orders placed for each participating account on any given day. If such orders cannot be fully executed under prevailing market conditions, KCM can allocate the securities traded among participating accounts and each similar order in a manner which it considers equitable, taking into consideration, among other things, the size of the orders placed, the relative cash positions of each account, the investment objectives of the accounts, and liquidity of the security.

## **ITEM 13: REVIEW OF ACCOUNTS**

Review of Accounts: Accounts are reviewed on a regular basis by a senior member of the portfolio management team assigned to the client account. Accounts are reviewed:

- (1) when a decision has been made regarding a security held in the account, such as the addition, liquidation or the change of a position
- (2) when prompted by client communication
- (3) when notified of a contribution or withdrawal of assets
- (4) when a decision has been made to alter the asset allocation
- (5) at the discretion of the portfolio manager

- (6) when manager has determined that market price fluctuation (equity or fixed income asset classes), style drift or other market factors have moved to the extent that allocation thresholds might be out of target objectives.

Portfolio Managers and their Portfolio Assistants maintain a record of client objectives, risk profile, restrictions and unique guidelines. On a quarterly basis, the Portfolio Manager and or the Portfolio Assistant will review portfolio performance, composition, and adherence to written objectives. Further, at the beginning of each new calendar quarter, Portfolio Managers will attest formally that all client account have been reviewed and checked against stated investment objectives, if any.

Objectives, constraints, restrictions and asset composition can and do change for many clients. The Portfolio Manager will maintain notes to any modifications made for client, and the client will be sent an email within 48 hours of such changes made outlining the new mandate, understanding or other adjustments agreed to.

Client portfolio reports are furnished to each client on a quarterly basis. Reports generally include a written Market Commentary, Portfolio Summary, Assets in Portfolio, and Transaction Schedule. Additional reports can be provided upon request.

#### **ITEM 14: CLIENT REFERRALS AND OTHER COMPENSATION**

We receive an economic benefit from Schwab in the form of the support products and services it makes available to us and other independent investment advisors that have their clients maintain accounts at Schwab. These products and services, how they benefit us, and the related conflicts of interest are described above (see Item 12 – Brokerage Practices). The availability of Schwab’s products and services to us is not based on our giving particular investment advice, such as buying particular securities for our clients.

KCM has entered into an agreement with Charles Schwab & Co., Inc. an independent and unaffiliated broker-dealer (“Schwab”) to participate in the Schwab Advisor Network (“the Service”), an advisor referral service designed to help investors find an independent professional Investment Manager/Advisor in their area. KCM has agreed to pay Schwab a fee for participating in the Service. This fee can be increased, decreased or waived by Schwab from time to time. Schwab does not supervise Advisor and has no responsibility for KCM’s management of clients’ portfolios or Advisor’s other advice or services.

KCM pays Schwab fees to receive client referrals through the Service. KCM’s participation in the Service can raise potential conflicts of interest described below.

- I. KCM 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 maintained at, or transferred to, another custodian.

- II. The Participation Fee paid by KCM is a percentage of the fees the client owes to KCM or a percentage of the value of the assets in the client's account, subject to a minimum Participation Fee.
- III. KCM 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 KCM quarterly and can or will increase, decrease or waived by Schwab from time to time.
- IV. The Participation Fee is paid by KCM and not by the client.
- V. KCM has agreed not to charge new clients referred through the Service after October 1, 2017 fees or costs greater than the fees or costs KCM charges clients with similar portfolios who were not referred through the Service after October 1, 2017.

KCM generally pays Schwab a Non-Schwab Custody Fee if custody of a referred client's account is not maintained by, or assets in the account are 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 Advisor generally would pay in a single year. Thus, KCM 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 KCM's clients who were referred by Schwab and those referred clients' family members living in the same household. Thus, KCM will have incentives to encourage household members of clients referred through the Service to maintain custody of their accounts and execute transactions at Schwab and to instruct Schwab to debit KCM's fees directly from the accounts.

For accounts of KCM's clients maintained in custody at Schwab, Schwab will not charge the client separately for custody but will receive compensation from KCM's clients in the form of commissions or other transaction-related compensation on securities trades executed through Schwab. Schwab also will 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, KCM can have an incentive to cause trades to be executed through Schwab rather than another broker-dealer. KCM nevertheless, acknowledges its duty to seek best execution of trades for client accounts. Trades for client accounts held in custody at Schwab can be executed through a different broker-dealer than trades for KCM's] other clients. Thus, trades for accounts custodied at Schwab can be executed at different times and different prices than trades for other accounts that are executed at other broker-dealers.

KCM can or will recommend to a client a broker/dealer that has referred clients to KCM only when KCM believes that said broker/dealer is capable of providing the high level of services to the client and when fees and expenses associated with said broker/dealer are deemed to be fair and reasonable for the level of service provided. In some cases, KCM will direct brokerage to certain brokers or dealers who have also referred clients to KCM. Under such circumstances, the

client is not, in all instances, assured of the lowest commissions and/or broker/dealer compensation. In addition to the Service as mentioned in paragraph above, KCM participates and/or can at a future date participate in a number of referral programs that provide qualified leads to KCM. Participation in these programs can pose potential conflicts of interest. KCM does not directly compensate the program sponsor for these leads. The leads are not required to custody their assets with the program sponsor. If the lead decides to engage the services of the program sponsor, it should be assumed that the program sponsor will be the primary broker for the account and, as a result, will receive compensation in the form of brokerage commissions and related fees by the sponsor for the account.

## **ITEM 15: CUSTODY**

Under government regulations, we are deemed to have custody of your assets if you authorize us to instruct Schwab to deduct our advisory fees directly from your account. Schwab maintains actual custody of your assets. You will receive account statements directly from Schwab at least quarterly. They will be sent to the email or postal mailing address you provided to Schwab. You should carefully review those statements promptly when you receive them. We also urge you to compare Schwab's account statements with the periodic account statements you will receive from us.

Additionally, KCM is also deemed to have custody of client funds or securities based on the fact that it acts as Investment Adviser to a limited partnership organized as a pooled investment vehicle. KCM does not physically possess client funds or securities. If funds or securities are inadvertently received by KCM, they are returned to the sender within three business days upon receipt.

## **ITEM 16: INVESTMENT DISCRETION**

Generally, KCM clients grant it full discretionary authority over securities purchases and sales, subject to investment objectives and guidelines that are established by agreement between KCM and the client at the time the account is opened. Absent instructions to the contrary from the client, KCM has the authority to determine, without obtaining specific client consent, the securities to be bought or sold, amount of securities to be bought or sold, broker/dealer to be used and commission rates to be paid.

The investment advice given to each client is based on the client's investment objectives and individual needs. KCM will rely upon you, the client, to update us about any changes in your life or in the status of the account that can affect issues such as risk tolerance, income requirements, taxes, investment time horizon, downside risk, or return requirement. KCM does not believe in a one-size-fits-all approach, and our business is structured to provide individualized and customized accounts advice, structure and management.

In certain situations, client accounts can come to KCM with stock, bond or mutual fund holdings identified by the client to be retained or client desires to control the size and value of this holding in the portfolio account. At the beginning of our client/advisor relationship, KCM will code these securities as "Un-Managed" (previously "Unsupervised"). We shall not vote proxies, have

dispositive power, nor vote on issues relating to tender offers or recapitalizations. Accordingly, it is incumbent upon you, the de-facto owner of these Un-Managed securities to obtain the necessary forms from your broker or custodian to vote proxies and other corporate governance issues that arise from time to time. KCM will identify these holdings clearly and distinctly as "Un-Managed" on each regularly prepared statement of account. Through this disclosure, KCM relinquishes all responsibility for these securities, their merits or suitability for the portfolio or the account holder and will not be included as a billable asset or part of the billable account in accordance with our fee schedule as defined in this document.

Where KCM has discretion to select the executing broker, KCM will endeavor to select those brokers or dealers which will provide the best services at the lowest commission rates possible. The reasonableness of commissions is based on the broker's ability to provide professional services, competitive commission rates, research and other services, which will help KCM in providing investment management services to clients. KCM can, therefore, recommend the use of (or use) a broker who provides useful research and securities and portfolio management services even though a lower commission can be charged by a broker who offers no research services and minimal securities transaction assistance.

#### **ITEM 17: VOTING CLIENT SECURITIES**

Proxy voting policies and procedures are required by Rule 206(4)-6 of the Advisers Act. KCM's Proxy Voting Policy and Procedures, which are currently effective, are reviewed at least annually to ensure that they are adequate and effective.

KCM has adopted Proxy Voting Policy Procedures that are reasonably designed to ensure that KCM is voting in the best interest of its clients. In our ongoing effort to better serve you, KCM has contracted with Institutional Shareholder Services (ISS) Proxy Voting and Securities Class Action Services. ISS is the global leader in their field of expertise and believe it to be a clear benefit for our clients to have experts provide class action litigation monitoring and claim filing effective June 30, 2016.

In the past, KCM Investment Advisors LLC has processed claims on behalf of our clients. With the proliferation of class action suits against corporations in which some of our clients are invested, we feel it is important to provide all of our clients the ability to participate in the recovery of any and all claims from such suits. Industry spokespeople anticipate \$200 Billion in class action awards to be paid out over the next decade. KCM believes that contracting with outside experts in the field for monitoring, filing, administrating and payment processing is in the best interest of all our clients and employees.

Aside from freeing KCM to focus on your portfolios, having ISS as a business partner to process and file class action claims should capture more awards available. ISS monitors each claim you have, collects the applicable documentation, interprets the terms of each settlement, files the appropriate claim form, interacts with the administrators and distributes your award on your behalf. KCM has negotiated a discounted contingency fee of 20% for its clients, which ISS will automatically subtract from an award when the award is paid.

Upon the commencement of this service, ISS will look back through available records and make filings for any and all cases that remain open for claims to be filed.

We are pleased to provide this service to you and are confident the outsourcing of this specialized organization will benefit our clients. You have to opportunity to “OPT –OUT” of this service if you choose.

**Note: KCM will not vote a client’s proxy or process Securities Class action claims after a client has terminated it advisory relationship with KCM.**

## **ITEM 18: FINANCIAL INFORMATION**

Registered investment advisers are required in this Item to provide certain financial information or disclosures about their financial condition. KCM has no financial commitment that impairs its ability to meet contractual and fiduciary commitments to clients and has not been the subject of a bankruptcy proceeding.