

Item 1: Cover Page

**Part 2A of Form ADV
Firm Brochure**

March 9, 2021

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This brochure provides information about the qualifications and business practices of Kingsbury Capital Investment Advisors, LLC. If you have any questions about the contents of this brochure, please contact us at info@kingsburycap.com. The information in this brochure has not been approved or verified by the United States Securities and Exchange Commission or any state securities authority. Registration with either the SEC or State does not imply a certain level of skill or expertise.

Additional information about Kingsbury Capital Investment Advisors, LLC, is also available on the SEC's website at www.adviserinfo.sec.gov.

Item 2: Material Changes

This Firm Brochure is our disclosure document prepared according to regulatory requirements and rules. We will provide you with interim disclosures about material changes as necessary. The firm has no material changes from the prior version of this brochure dated February 18, 2020.

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Item 4: Advisory Business

A. Kingsbury Capital Investment Advisors

Kingsbury Capital Investment Advisors, LLC ("KCIA," and/or the "firm"), is an Illinois limited liability company and is registered with the SEC as an investment adviser. The firm is principally owned by William Vellon and Asher Wolmark and has been providing investment advisory and asset management services since 2008.

B. Advisory Services Offered

KCIA is an independent investment advisory and asset management firm offering a variety of financial services to individuals and high-net-worth individuals, trusts, retirement plans, pension and profit sharing plans, corporations, partnerships, and other legal entities. Advisory services may include investment strategy and portfolio management.

KCIA receives a limited power of attorney to effect securities transactions on behalf of its clients that include securities and strategies itemized in Item 8 of this Brochure. In addition KCIA, pursuant to the terms of its investment advisory agreement with clients, has discretionary authority to determine which securities are to be bought and sold, the price of such securities, the executing broker and the commission rates to be paid to effect such transactions, as more fully described in Item 16 of this Brochure.

Clients will be asked to complete a questionnaire establishing their financial situation, goals, needs, and tolerance for risk, and to factor in any additional personal or financial circumstances that they mandate. KCIA will then review the responses to the questionnaire and obtain any additional information, if necessary, and recommend a suitable portfolio of investments. Should the client agree, KCIA will implement the recommended portfolio.

In lieu of the unique nature of trusts, corporate or institutional plans, funds or otherwise for which KCIA provides services, the client and firm will establish goals under the direction of one or more trustees or the authorized executive of the plan or trust, which will be part of the Investment Policy Statement. Such information will include goals, needs, and tolerance for risk, and to factor in any additional restriction, requirement of the trust(s) and beneficiaries as they respect to the plan, trust or fund, or financial circumstances that they mandate.

In addition to providing KCIA with information regarding their personal financial circumstances, investment objectives and tolerance for risk, clients are obligated to provide the firm with any reasonable investment restrictions that should be imposed on the management of their portfolio, and to promptly notify the firm in writing of any changes in such restrictions or in the client's personal financial circumstances, investment objectives, goals and tolerance for risk. On a quarterly basis, KCIA's reports to clients will remind clients of their obligation to inform the firm of any such changes or any restrictions that should be imposed on the management of the client's account. KCIA will also contact clients at least annually to determine whether there have been any changes in a client's personal financial circumstances, investment objectives and tolerance for risk.

B.1. Institutional Retirement Investment Advisory Services

Employees in qualified retirement plans are protected by the Employee Retirement Income Security Act of 1974 (ERISA), which requires employers, investment advisors, and plan administrators to put employees' interests first when managing retirement savings plans. Public retirement systems are governed by similar state laws and often incorporate the protections of ERISA.

In order to demonstrate that a plan fiduciary has operated in a prudent manner, there are certain steps that the fiduciary must take. KCIA is committed to helping fiduciaries understand their roles and to assist them in implementing a process that allows them to fulfill their duties and responsibilities.

KCIA offers government retirement systems, sponsors of employee benefit plans (defined contribution and defined benefit) qualified under the Internal Revenue Code ("IRC"), and other retirement plans not qualified under the IRC (including Taft-Hartley organizations and "church" plans) a range of discretionary and non-discretionary services, including the selection of registered investment companies or other pooled investment funds to be offered under the plan.

KCIA will assist plan fiduciaries in the following areas:

- *Investment Selection and Monitoring*
 - Creating an investment policy statement
 - Modeling asset allocations
 - Selecting investment managers
 - Monitoring the investment options against well-defined risk and return criteria
 - Monitoring costs, fees and other criteria that relate to Plan Sponsor oversight responsibilities

- *Plan Evaluation/Benchmarking*

KCIA also "benchmarks" retirement plans against those of organizations in the same industry and against national normative data. Factors that KCIA evaluates include the following:

- Participation, deferral percentage, and asset allocation
- Investment performance
- Plan design
- Total plan costs
- Compliance
- Participant education and communication
- Recordkeeping and administration
- Technology
- Service provider capabilities and profiles

KCIA investment professionals work in partnership with clients to create sound solutions to investment challenges, including:

- Maximizing long-term return while not assuming unnecessary risk
- Creating an optimal portfolio that includes a diverse array of investment options that span the risk/return spectrum
- Keeping plan sponsors current on manager performance and the events that may affect performance

▪ *Vendor Search and Selection and Plan Implementation*

KCIA also assists its retirement plan clients in selecting trustees, custodians, accountants, actuaries, and other service providers. This process involves:

- Generating criteria to identify appropriate service providers
- Developing requests for proposals
- Objectively rating service providers
- Evaluating highly rated service provider candidates

Once a service provider is selected, KCIA will assist a client in implementing the client's retirement plan program. In implementing the program, KCIA will, among other things, review the plan design, develop performance standards, and review the service provider's contract.

▪ *Ongoing Plan Operations Support*

KCIA also provides assistance with strategic employee education and communications in connection with client retirement plan programs, as well as ongoing plan sponsor administrative support with respect to the Plan. We will assist in designing appropriate participant education strategies, provide on-site education and enrollment meetings, and provide supporting education and counseling specific to participant benefits under the plan. As retirement program administration is central to the successful operation of the plan, we will provide support to Plan Fiduciaries in fulfilling their obligations through guidance with respect to compliance with rules and regulations as they apply to each specific situation.

KCIA will not provide legal advice as we are not licensed attorneys; however, we can provide guidance based on our expertise as well as client resources specific to benefit plan operations and general employee benefit issues.

KCIA, in conjunction with Service Provider recommendations, will provide ongoing management and support of vendor transitions, such as a change in recordkeeper, investment managers, or other providers.

B.1.a. Limitations with Regard to KCIA Services and Plan Establishment, Termination or Other Employer Needs

In no event will the services of KCIA specific to a Plan for which we receive payment out of plan assets be related solely to the Plan Sponsor. Our obligation as fiduciaries prohibits receiving any compensation from plan assets unless solely related to plan operations as defined under ERISA.

In some cases clients may enter separate agreements with other professionals (who may also be KCIA Investment Advisor Representatives) with specific expertise in benefit plan management.

B.1.b. Limitations with Regard to Participant Education and Investment Advice

KCIA does not provide individual advice to plan participants as part of the services to the Plan. Individual participants may or may not engage KCIA for personalized financial advice for their personal investment needs. KCIA and/or plan vendors may make available individual, personal investment advice services, including automated advice modules, asset allocation services or other means to deliver individual advice through other parties, and fees to the participant or the plan may apply. In no event will Kingsbury have any relationship or arrangement which results in KCIA having an economic interest or benefit from such arrangements. KCIA will provide ongoing support in the evaluation of the individual advice vendor, as appropriate.

B.1.c. Limitation of Services with Respect to Participant Directed Employer Plans, Annuities, or Other Arrangements

In some cases KCIA will act as an advisor to a Plan, Trust or Employer with respect to investments held on behalf of participants of a plan established by the Employer. KCIA in its role may or may not make available other services that provide advice to participants, unless directed by the Plan that is deemed "investment advice" under ERISA. KCIA, in its unique role with respect to plan assets, or assets held in a trust, annuity or other arrangement, may be in position to advise or make recommendations of a personal nature. KCIA will take into account the specific information unique to the participant in executing its obligations as required by the terms of agreement, or as requested by a participant if applicable. Participants, in their sole discretion, may enter into separate agreements for other services with our firm with respect to other personal assets. Any advice provided to a natural person who is a beneficiary of the plan or trust that is incidental to the providing of services to the plan or trust will be based on the objectives, restrictions or otherwise established with the client on behalf of participants or beneficiaries as necessary, and take into account personal information provided by the participant.

Any arrangement to provide "advice" as defined under ERISA on behalf of plan participants that is established by the employer or plan sponsor is intended to meet applicable regulations. KCIA and Client agree to modify such arrangement, and make available information with regard to administration, certification or any required changes, restrictions, or circumstances effecting such arrangement as needed. Such advice, if provided to participants, will be at the discretion of the participant, and will be limited to the specific information disclosed by the participant and any information provided in the context of participation in a plan or status as an employee or independent contractor of an employer. In many cases, such systems, tools, programs that are used to provide these services will be under a separate arrangement with one or more service providers to a plan or trust.

KCIA and Client may also enter into agreements limited nature with respect to Participant Advice, or other services of a personal nature specific to a beneficiary of a plan or trust. Such agreements may be provided through or on behalf of a plan, a plan service provider, trust

company, bank or insurance company qualified to perform services required by the Client, or any combination of the above.

KCIA services are limited in nature with respect to Employer Plans, in that KCIA, as investment advisor, does not act as, or substitute for, the Plan Sponsor, with respect to other service providers to the Plan or Trust. KCIA may make recommendations that include other services in addition to investments or investment related services on behalf of plans. Client agrees to notify KCIA of any change to, or restrictions of, its objectives and obligations under the Plan as needed. KCIA, in its role, may also provide advice and guidance with regard to such services. KCIA, in its role, does not have any interest in such service providers, and does not benefit from any recommendation unless specifically authorized by a plan.

B.2. Financial Planning Services

Clients will receive a written or oral report (depending on the client's preference) providing a basic financial plan designed to help achieve their stated financial goals and objectives. Based on the client's needs, financial planning services may include (but are not limited to) the following:

- Preparation of a recommended asset allocation that serves to diversify the client's portfolio among different categories of investments, such as domestic and international small, medium, and large capitalization securities; corporate and government fixed income (short-, intermediate-, and long-term maturities); emerging market securities (i.e., foreign issuers); real estate investment trusts; and such other alternative asset categories that are suitable in light of the client's investment goals, objectives, and risk tolerance.
- Preparation of an investment policy statement setting forth the client's investment plan, with specific direction in terms of diversification requirements, tax issues, estate planning issues, risk tolerance, retirement, and other identified objectives of the client, including a targeted rate-of-return objective.
- Preparation of a retirement plan that serves to identify whether the client is saving enough and investing in a way that meets retirement objectives in light of the client's financial circumstances and risk tolerance.
- Preparation of cash flow projections to ensure that the client can meet daily living expenses and obligations.
- Insurance planning to meet the needs of the client, taking into account family, business, and other financial objectives of the client.
- General family office and business consulting:
 - Retirement objectives
 - Philanthropy
 - Estate planning
 - Wealth transition
 - Business succession and related issues
 - Recommendation of third-party managers for use by the client

KCIA gathers required information through in-depth personal interviews and questionnaires. Information gathered includes a client's current financial status, investment objectives, future goals, and attitudes toward risk. Related documents supplied by the client are carefully reviewed, and a report is prepared covering one or more of the above-mentioned topics as directed by the client.

B.3. Account Aggregation Services

KCIA, subject to client authorization, provides account aggregation services to its clients. KCIA through a third-party service provider will provide a secure website that aggregates various investment accounts from various financial institutions so clients can view their investment holdings in one place. Certain financial institutions may not support this service. If any of your accounts are not able to link with our service, KCIA will submit a request to have them added, but cannot guarantee that all links will be successful.

B 3.a. Account Aggregation Services for Trusts, Retirement Plans, Insurance through Outside Firms

KCIA, subject to client authorization, may utilize, provide or have access to outside account aggregation services on behalf of clients. KCIA through a third-party service provider will provide a secure website that aggregates various investment accounts from various financial institutions so clients, which may include corporate retirement plans, trusts, or other funds, can manage their obligations under any such plan, trust or fund. For plans, such services may include participant access and related services. Certain financial institutions may not support this service, and the Client is required to provide sufficient information, restrictions, or directives to KCIA, so that the firm may recommend a suitable portfolio of investments.

C. Client-Tailored Services and Client-Imposed Restrictions

Clients' accounts will be managed on the basis of their financial situation and investment objectives and in accordance with any reasonable restrictions imposed by the client on the management of the account—for example, restricting the type or amount of security to be purchased in the portfolio.

D. Wrap Fee Programs

KCIA does not participate in wrap fee programs. (Wrap fee programs offer services for one all-inclusive fee.)

E. Client Assets Under Management

As of December 31, 2020, KCIA has \$127,000,000 in discretionary and \$3,000,000 in non-discretionary client assets under supervision.

Item 5: Fees and Compensation

A. Methods of Compensation and Fee Schedule

A.1. Asset Portfolio Management Fees

Fees are charged as a percentage of the assets under management as stated below:

<u>Account Size</u>	<u>Annual Fee Rate*</u>
First \$1,000,000	2.00% (200 basis points)
\$1,000,000 - \$5,000,000	1.50% (150 basis points)
Over \$5,000,000	1.25% (125 basis points)

* Fees are negotiable. Certain states place a limit on the amount an advisor may charge for services.

KCIA charges its investment advisory fee based upon the schedule above, based upon the assets in each individual account. In some cases, KCIA may offer a discount of this fee schedule to an account or to a household. Accounts are billed on a monthly basis in advance; clients will receive a billing statement that clearly states the balance in their account at month-end, which provides the basis for the fee for the following month.

For example, a client with \$1,250,000 will pay \$20,000 (at 2% for the first \$1,000,000) plus \$3,750 (at 1.50% for the next \$250,000), which amounts to an annual fee of \$23,750, which equates to a monthly fee of \$1,979.17

KCIA generally requires a minimum investment of \$50,000 to open an investment advisory relationship. For accounts with portfolio values less than \$50,000, clients may be able to find comparable services for more favorable pricing elsewhere. KCIA may, in its sole discretion, waive the required minimum.

Asset-based fees are always subject to the investment advisory agreement between the client and KCIA. The client and the client's custodian or broker-dealer will be invoiced at the beginning of each calendar month, based upon the market value (market value plus any credit balance or minus any debit balance) of the client's account at the end of the prior month, as mutually agreed upon by the client and KCIA. The fees will be prorated if the investment advisory relationship commences otherwise than at the beginning of a calendar month.

The client authorizes the qualified custodian to automatically deduct the fee and all other charges payable hereunder from the assets in the account when due, with such payments to be reflected on the next account statement sent to the client. If insufficient cash is available to pay such fees, securities in an amount equal to the balance of unpaid fees will be liquidated to pay for the unpaid balance. KCIA may modify the fee at any time upon 30 days' written notice to the client. In the event the client has an ERISA-governed plan, fee modifications must be approved in writing by the client.

A client investment advisory agreement may be canceled by either party with 30 days' prior written notice. Upon termination, any unearned, prepaid fees will be due and payable. The client has the right to terminate an agreement without penalty within five (5) business days after entering into the agreement.

A.1.a. Important Disclosure – Custodian Investment Programs

Please be advised that the firm utilizes certain custodians/broker-dealers. Under these arrangements we can access certain investment programs offered by our custodian that offer certain compensation and fee structures that create conflicts of interest of which clients need to be aware. Please note the following:

Limitation on Mutual Fund Universe for Custodian Investment Programs: Please note that as a matter of policy we prohibit the receipt of revenue share fees from any mutual funds utilized for our advisory clients' portfolios. Nonetheless, if the firm decides to take these 12b-1 fees in the future, please note the following: There are certain programs offered by our custodian in which the firm participates that limit the types of mutual funds and mutual fund share classes to those in which our custodian has negotiated the receipt of 12b-1 and/or other revenue sharing fee payments from the mutual fund issuer or sponsor. As such, a client's investment options may be limited in certain of these programs to those mutual funds and/or mutual fund share classes that pay 12b-1 fees and other revenue sharing fee payments, and the client should be aware that the firm is not selecting from among all mutual funds available in the marketplace when recommending mutual funds to the client. Such fees are deducted from the net asset value of the mutual fund and generally, all things being equal, cause the fund to earn lower rates of return than those mutual funds that do not pay revenue sharing fees. The client is under no obligation to utilize such programs or mutual funds. Although many factors will influence the type of fund to be used, the client should discuss with their investment adviser representative whether a share class from a comparable mutual fund with a more favorable return to investors is available that does not include the payment of any 12b-1 or revenue sharing fees given the client's individual needs and priorities and anticipated transaction costs. In addition, the receipt of such fees can create conflicts of interest in instances (i) where our adviser representative is also licensed as a registered representative of a broker-dealer and receives a portion of 12b-1 and or revenue sharing fees as compensation – such compensation creates an incentive for the investment adviser representative to use programs which utilize funds that pay such additional compensation; and (ii) where the broker-dealer receives the entirety of the 12b-1 and/or revenue sharing fees and takes the receipt of such fees into consideration in terms of benefits it may elect to provide to the firm, even though such benefits may or may not benefit some or all of the firm clients.

Additional Disclosure Concerning Wrap Programs: In addition, our custodian offers certain wrap fee programs that (i) allow our investment adviser representatives to select mutual fund classes that either have no transaction fee costs associated with them but include embedded 12b-1 fees that lower the investor's return ("sometimes referred to as "A-Shares," depending on the mutual fund issuer), or (ii) allow the use of mutual fund classes that have transaction fees associated with them but do not carry embedded 12b-1 fees (sometimes referred to as "I-Shares," depending on the mutual fund sponsor). Our wrap fee programs offer investment

services and related transaction services for one all-inclusive fee (except as may be described elsewhere in this Brochure). The trading costs are typically absorbed by the firm and/or the investment representative. If a client's account holds A-Shares within a wrap fee program, the firm and/or its investment adviser representative avoids paying the transaction fees charged by other mutual fund classes, which in effect decreases the firm's costs and increases its revenues from the account. Effectively the cost is transferred to the client from the firm in the form of a lower rate of return on the specific mutual fund. This creates an incentive for the firm or investment adviser to utilize such funds as opposed to those funds that may be equally appropriate for a client but do not carry the additional cost of 12b-1 fees borne by the client. As a policy matter, the firm does not allow funds that impose 12b-1 or revenue sharing fees on the client's investment within its wrap fee programs. Should a client prefer an A-Share class or mutual fund share class that has embedded 12b-1 and/or revenue sharing fees, then the utilization of such funds within the wrap fee program requires specific written client consent acknowledging the conflict. Clients should understand and discuss with their investment adviser representative the types of mutual fund share classes available in the wrap fee program and the basis for using one share class over another in accordance with their individual circumstances and priorities.

A.2. Asset Portfolio Management Fees for Institutional Retirement Investment Advisory Services

Schedule of Fees for asset management, including portfolio design, implementation, and ongoing review, are generally calculated based on a percentage of client assets under advisement and are recalculated quarterly. Assets under advisement include those mutually agreed upon by the client and KCIA.

<u>Asset Range</u>	<u>Annual Fee Rate</u>
Start Up Plan to \$499,000	1.250%
\$500,000 to \$999,999	1.125%
\$1,000,000 to \$1,499,999	1.000%
\$1,500,000 to \$2,999,999	0.850%
\$3,000,000 to \$4,999,999	0.750%
\$5,000,000 to \$9,999,999	0.650%
\$10,000,000 and greater	0.500%

While there is no minimum account value, KCIA generally requires a minimum annual fee of \$2,500. With a minimum annual fee of \$2,500, a client with portfolio assets of less than \$200,000 may be able to find comparable services at a more favorable economic arrangement elsewhere. KCIA may waive or modify the required minimum annual fee in special circumstances and reserves the right to make exceptions to such minimum annual fees in its sole discretion.

In some cases, clients may wish to engage KCIA on a project specific basis, for which hourly fees would apply. Hourly fees range from \$100 per hour for support to \$300 per hour for Investment Advisor Representatives. Project specific work will normally be based on specific guidelines and costs developed in conjunction with the client.

Advisory fees are always subject to the investment advisory agreement between the client and KCIA. KCIA will invoice the plan monthly or quarterly in arrears as mutually agreed between the plan and KCIA, based on the asset value reported as of the last market closing date for the preceding month or quarter as applicable.

A client investment advisory agreement may be canceled for any reason at any time by the client upon receipt of written notice, or by KCIA with 30 days' prior written notice. Upon termination of any plan account, earned, unpaid fees will be due and payable.

A.3. Financial Planning Fees

KCIA offers either hourly or fixed fee arrangements to all financial planning clients. Generally, the more complex the financial planning engagement, the higher the likelihood that fixed fees will be negotiated, as it is difficult with respect to complex cases to discern the exact number of hours required to provide services. Financial planning fees will be billed at the rate of \$250 per hour or a fixed fee mutually agreed upon by the client and KCIA. For fixed fee arrangements, KCIA will provide the prospective client with an estimate of the fixed charges prior to finalizing the financial planning agreement; fixed fee arrangements generally range from \$1,500 to \$3,000. Estimates will be based upon a good faith estimate of the number of hours to complete the assignment multiplied by the hourly rate and re-evaluated at a later point as discussed above. These fees are negotiable.

Prior to engaging KCIA to provide financial planning and/or consulting services, the client is required to enter into a written agreement with KCIA setting forth the terms and conditions of the engagement. Generally, KCIA requires one-half of the financial planning and/or consulting fee (estimated hourly or fixed) payable upon entering the written agreement. Clients are never required to pay \$1,200 or more, six months or more in advance. The balance is generally due upon delivery of the financial plan or completion of the agreed upon services.

Clients seeking to terminate this service must do so in writing. The client has the right to terminate an agreement without penalty within five business days after entering into the agreement.

A.4. Performance-Based Fees

Clients may elect to have their fees charged as a combination of management and performance-based fees. Please refer to Item 6 below for the requirements and a description of the asset and performance-based fee calculation.

B. Client Payment of Fees

KCIA generally requires clients to authorize the direct debit of fees from their accounts. Exceptions may be granted subject to the firm's consent for clients to be billed directly for our fees. For directly debited fees, the custodian's periodic statements will show each fee deduction from the account. Clients may withdraw this authorization for direct billing of these fees at any time by notifying us or their custodian in writing.

KCIA will deduct advisory fees directly from the client's account provided that (i) the client provides written authorization to the qualified custodian, and (ii) the qualified custodian sends the client a statement, at least quarterly, indicating all amounts disbursed from the account.

B.1. Small Portfolio Balances & Withdrawals

Non-institutional retirement portfolio balances will be calculated based upon the firm's fee schedule and applied on the client's ending portfolio value as of the end of the prior month.

If the client withdraws more than 10% of the portfolio value in any given month, the client will receive a pro rata refund on the withdrawn amount. For example, if the client has a \$50,000 portfolio at the beginning of the month and withdraws \$5,000 in the middle of the month, the client will receive a refund of 3% of \$5000/12 divided by 15/30, which equates to \$6.25 for the prorated month.

The client is responsible for verifying the accuracy of the fee calculation, as the client's custodian will not verify the calculation.

C. Additional Client Fees Charged

All fees paid for investment advisory services are separate and distinct from the fees and expenses charged by exchange-traded funds, mutual funds, separate account managers, private placement, pooled investment vehicles, broker-dealers, and custodians retained by clients. Such fees and expenses are described in each exchange-traded fund and mutual fund's prospectus, each separate account manager's Form ADV and Brochure and Brochure Supplement or similar disclosure statement, each private placement or pooled investment vehicle's confidential offering memoranda, and by any broker-dealer or custodian retained by the client. Clients are advised to read these materials carefully before investing. If a mutual fund also imposes sales charges, a client may pay an initial or deferred sales charge as further described in the mutual fund's prospectus. A client using KCIA may be precluded from using certain mutual funds or separate account managers because they may not be offered by the client's custodian.

Should you decide to establish a relationship with KCIA, we will have you fill out account paperwork both for Kingsbury and TD Ameritrade ("TDA"). The transaction charges associated with your account at TDA are billed to the client's account by TDA directly; KCIA does not receive any of these charges. TDA offers the firm the choice of either a flat percentage of 25 basis points per year or a per-trade charge of \$9.99 per trade. We will offer our advice of which plan we think will be in your best interests to adopt, based upon our good-faith estimate of trading volume, account size, and so on. Also, should we conclude that it would be advisable to change from the flat-fee to the per-trade plan, the account can be changed with the appropriate signed TDA form.

Please refer to the Brokerage Practices section (Item 12) for additional information regarding the firm's brokerage practices.

D. Prepayment of Client Fees

KCIA requires the prepayment of its advisory fees. KCIA's fees will either be paid directly by the client or disbursed to KCIA by the qualified custodian of the client's investment accounts, subject to prior written consent of the client. The custodian will deliver directly to the client an account statement, at least quarterly, showing all investment and transaction activity for the period, including fee disbursements from the account.

A client investment advisory agreement may be canceled by either party with 30 days' prior written notice. If the agreement terminates other than at the end of a calendar month, any unearned, prepaid fees will be promptly refunded to the client. The client has the right to terminate an agreement without penalty within five (5) business days after entering into the agreement.

E. External Compensation for the Sale of Securities to Clients

Other than as disclosed in Item 10.C. of this Brochure, KCIA's advisory professionals are compensated primarily through a salary and bonus structure. KCIA's advisory professionals may be paid sales, service, or administrative fees for the sale of mutual funds or other investment products. KCIA's advisory professionals may receive commission-based compensation for the sale of securities and insurance products.

Item 6: Performance-Based Fees and Side-by-Side Management

Appropriately qualified clients may elect to be charged a performance-based fee. Performance fees are allowed only under certain specific conditions regarding the client account, such as for "qualified clients" as defined in the Investment Advisers Act of 1940.

Qualified clients who opt for performance-based fees must meet one of the categories below:

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

The client will pay the firm a monthly management fee, in advance, equal to one-twelfth of 1.00% (1.00% annually) of the net asset value of the account at the beginning of the month. This fee will be paid to the firm for providing ongoing advisory services and is payable regardless of whether or not the account is profitable.

The client will pay the firm a monthly performance fee equal to 20% of the new appreciation (if any) in the net asset value of the account. "New appreciation" means the total month-end increase in net asset value of the account from the end of the last period for which a performance fee was earned by the firm, including interest income, after adjusting for any capital contributions and withdrawals by the client. New appreciation is not reduced by the performance fee itself. That is, the firm does not have to earn back the performance fee previously paid in order to generate new appreciation. If a performance fee payment is made on the new appreciation of the value of the account, and the account thereafter incurs losses, the firm will retain the amount previously paid. While the firm may be paid a performance fee during a year in which the account incurs net losses, such losses will be carried forward and no

further performance fees may be paid to the firm unless and until the prior losses have been recovered; however, withdrawal of capital will result in a proportional decrease in any such loss carryforward.

The performance fee calculation may create an incentive for the adviser to make investments that entail a greater degree of risk or are more speculative than would be the case in the absence of a performance fee. In deciding whether or not to opt for a performance-based fee, the client should understand that KCIA has a potential conflict of interest in that it has an economic incentive to take risks with the client's portfolio that may be inconsistent with the client's investment objectives and risk tolerance. Moreover, the combined management and performance-based fees can be substantial in contrast to the monthly asset-based investment management fee detailed in Item 5 above. Lastly, please be advised that as a result of the combined asset-based/performance-based fee, the investment manager has an economic incentive to recommend a performance-based fee structure.

A client investment advisory agreement may be canceled at any time by the client, or by KCIA with 30 days' prior written notice to the client. Upon termination of any account, any earned, unpaid fees will be due and payable. The client has the right to terminate an agreement without penalty within five (5) business days after entering into the agreement.

Item 7: Types of Clients

KCIA offers its investment services to various types of clients, including high-net-worth individuals, trusts, retirement plans, tax exempt, corporations, partnerships, and other legal entities. Although KCIA provides investment services to the various types of clients mentioned, the services are conditioned upon meeting certain minimum criteria established by KCIA for each of the investment programs it offers.

KCIA generally requires a minimum investment of \$50,000 to open an investment advisory relationship. For accounts with portfolio values less than \$50,000, clients may be able to find comparable services for more favorable pricing elsewhere. KCIA may, in its sole discretion, waive the required minimum.

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

A. Methods of Analysis and Investment Strategies

A.1. Methods of Analysis

KCIA uses a variety of sources of data to conduct its economic, investment and market analysis, such as financial newspapers and magazines, economic and market research materials prepared by others, conference calls hosted by mutual funds, corporate rating services, annual reports, prospectuses, and company press releases. It is important to keep in mind that there is no specific approach to investing that guarantees success or positive returns; investing in securities involves risk of loss that clients should be prepared to bear.

KCIA and its investment adviser representatives are responsible for identifying and implementing the methods of analysis used in formulating investment recommendations to clients. The methods of analysis may include quantitative methods for optimizing client portfolios, computer-based risk/return analysis, technical analysis, and statistical and/or computer models utilizing long-term economic criteria.

- Optimization involves the use of mathematical algorithms to determine the appropriate mix of assets given the firm's current capital market rate assessment and a particular client's risk tolerance.
- Quantitative methods include analysis of historical data such as price and volume statistics, performance data, standard deviation and related risk metrics, how the security performs relative to the overall stock market, earnings data, price to earnings ratios, and related data.
- Technical analysis involves charting price and volume data as reported by the exchange where the security is traded to look for price trends.
- Computer models may be used to attempt the future value of a security based on assumptions of various data categories such as earnings, cash flow, profit margins, sales, and a variety of other company specific metrics.

In addition, KCIA reviews research material prepared by others, as well as corporate filings, corporate rating services, and a variety of financial publications. KCIA may employ outside vendors or utilize third-party software to assist in formulating investment recommendations to clients.

A.2. Important Disclosure – Custodian Investment Programs

Please be advised that the firm utilizes certain custodians/broker-dealers. Under these arrangements we can access certain investment programs offered by our custodian that offer certain compensation and fee structures that create conflicts of interest of which clients need to be aware. Please see Item 5.A. of this Brochure for detailed information.

A.3 Exchange-Traded Funds, Mutual Funds, Individual Equity and Fixed Income Securities

KCIA may recommend (i) no-load and load-waived mutual funds, and (ii) individual securities (including fixed income instruments). Such investments may represent certain asset class such as, large-, mid- and small-cap value, growth and core; international and emerging markets; and alternative investments. A description of the criteria to be used in formulating an investment recommendation for mutual funds, exchange-traded funds, and individual securities (including fixed income securities) is set forth below.

KCIA has formed relationships with third-party vendors that

- prepare performance reports
- perform due diligence monitoring of mutual funds, exchange-traded funds, and individual securities
- perform billing and certain other administrative tasks

KCIA may utilize additional independent third parties to assist in recommending and monitoring individual securities, mutual funds, and exchange-traded funds to clients as appropriate under the circumstances.

KCIA reviews certain quantitative and qualitative criteria related to mutual funds and exchange-traded funds and to formulate investment recommendations to its clients. Quantitative criteria may include:

- the performance history of a fund evaluated against that of its peers and other benchmarks
- an analysis of risk-adjusted returns
- an analysis of the manager's contribution to the investment return (e.g., manager's alpha), standard deviation of returns over specific time periods, sector and style analysis
- the fund, sub-adviser, or manager's fee structure
- the relevant portfolio manager's tenure

Qualitative criteria used in selecting/recommending mutual funds or exchange-traded funds include the investment objectives and/or management style and philosophy of a mutual fund or exchange-traded fund manager, a mutual fund or exchange-traded fund manager's consistency of investment style, and employee turnover and efficiency and capacity.

Quantitative and qualitative criteria related to mutual funds and exchange-traded funds are reviewed by KCIA on a quarterly basis or such other interval as appropriate under the circumstances. In addition, mutual funds and exchange-traded funds are reviewed to determine the extent to which their investments reflect efforts to time the market, or evidence style drift such that their portfolios no longer accurately reflect the particular asset category attributed to the mutual fund or exchange-traded fund by KCIA (both of which are negative factors in implementing an asset allocation structure).

KCIA will regularly review the activities of mutual funds and exchange-traded funds utilized for the client. Clients who invest in mutual funds or exchange-traded funds should first review and

understand the disclosure documents of those mutual funds or exchange-traded funds, which contain information relevant to such retention or investment, including information on the methodology used to analyze securities, investment strategies, fees, and conflicts of interest.

A.4. Material Risks of Investment Instruments

KCIA may invest in exchange-traded funds, but may also invest in equity securities, corporate debt instruments, municipal fixed income instruments, government securities including asset-backed securities, private placements, pooled investment vehicles, structured products and options on securities as detailed below:

- Equity securities
- Warrants and rights
- Mutual fund securities
- Exchange-traded funds
- Corporate debt securities, commercial paper, and certificates of deposit
- Municipal securities
- U.S. government securities
- Private placements
- Option contracts on securities
- Pooled investment vehicles
- Structured products
- Government and agency mortgage-backed securities
- Corporate debt obligations
- Mortgage-backed securities
- Collateralized obligations

A.5.a. Equity Securities

Investing in individual companies involves inherent risk. The major risks relate to the company's capitalization, quality of the company's management, quality and cost of the company's services, the company's ability to manage costs, efficiencies in the manufacturing or service delivery process, management of litigation risk, and the company's ability to create shareholder value (i.e., increase the value of the company's stock price). Foreign securities, in addition to the general risks of equity securities, have geopolitical risk, financial transparency risk, currency risk, regulatory risk and liquidity risk.

A.5.b. Warrants and Rights

KCIA may invest in warrants and rights. Warrants are securities, typically issued with preferred stock or bonds, that give the holder the right to purchase a given number of shares of common stock at a specified price and time. The price of the warrant usually represents a premium over the applicable market value of the common stock at the time of the warrant's

issuance. Warrants have no voting rights with respect to the common stock, receive no dividends and have no rights with respect to the assets of the issuer.

Investments in warrants and rights involve certain risks, including the possible lack of a liquid market for the resale of the warrants and rights, potential price fluctuations due to adverse market conditions or other factors, and failure of the price of the common stock to rise. If the warrant is not exercised within the specified time period, it becomes worthless.

A.5.c. Mutual Fund Securities

Investing in mutual funds carries inherent risk. The major risks of investing in a mutual fund include the quality and experience of the portfolio management team and its ability to create fund value by investing in securities that have positive growth, the amount of individual company diversification, the type and amount of industry diversification, and the type and amount of sector diversification within specific industries. In addition, mutual funds tend to be tax inefficient and therefore investors may pay capital gains taxes on fund investments while not having yet sold the fund.

A.5.d. Exchange-Traded Funds ("ETFs")

KCIA may invest in ETFs (which may, in turn, invest in equities, bonds and other financial vehicles). ETFs are investment companies whose shares are bought and sold on a securities exchange. An ETF holds a portfolio of securities designed to track a particular market segment or index. Some examples of ETFs are SPDRs[®], streetTRACKS[®], DIAMONDSSM, NASDAQ 100 Index Tracking StockSM ("QQQsSM"), iShares[®] and VIPERs[®]. The funds could purchase an ETF to gain exposure to a portion of the U.S. or foreign market. The funds, as a shareholder of another investment company, will bear their pro rata portion of the other investment company's advisory fee and other expenses, in addition to their own expenses.

Investing in ETFs involves risk. Specifically, ETFs, depending on the underlying portfolio and its size, can have wide price (bid and ask) spreads, thus diluting or negating any upward price movement of the ETF or enhancing any downward price movement. Also, ETFs require more frequent portfolio reporting by regulators and are thereby more susceptible to actions by hedge funds that could have a negative impact on the price of the ETF. Certain ETFs may employ leverage, which creates additional volatility and price risk depending on the amount of leverage utilized, the collateral and the liquidity of the supporting collateral.

Further, the use of leverage (i.e., employ the use of margin) generally results in additional interest costs to the ETF. Certain ETFs are highly leveraged and therefore have additional volatility and liquidity risk. Volatility and liquidity can severely and negatively impact the price of the ETF's underlying portfolio securities, thereby causing significant price fluctuations of the ETF.

A.5.e. Corporate Debt, Commercial Paper, and Certificates of Deposit

Fixed income securities carry additional risks than those of equity securities described above. These risks include the company's ability to retire its debt at maturity, the current interest rate environment, the coupon interest rate promised to bondholders, legal constraints,

jurisdictional risk (U.S or foreign) and currency risk. If bonds have maturities of 10 years or greater, they will likely have greater price swings when interest rates move up or down. The shorter the maturity the less volatile the price swings. Foreign bonds also have liquidity and currency risk.

Commercial paper and certificates of deposit are generally considered safe instruments, although they are subject to the level of general interest rates, the credit quality of the issuing bank and the length of maturity. With respect to certificates of deposit, depending on the length of maturity there can be prepayment penalties if the client needs to convert the certificate of deposit to cash prior to maturity.

A.5.f. Municipal Securities

Municipal securities carry additional risks than those of corporate and bank-sponsored debt securities described above. These risks include the municipality's ability to raise additional tax revenue or other revenue (in the event the bonds are revenue bonds) to pay interest on its debt and to retire its debt at maturity. Municipal bonds are generally tax-free at the federal level, but may be taxable in individual states other than the state in which both the investor and municipal issuer is domiciled.

A.5.g. U.S. Government Securities

KCIA may invest in U.S. government securities. U.S. government securities include securities issued by the U.S. Treasury and by U.S. government agencies and instrumentalities. U.S. government securities may be supported by the full faith and credit of the United States.

A.5.h. Private Placements

Private placements carry significant risk in that companies using the private placement market conduct securities offerings that are exempt from registration under the federal securities laws, which means that investors do not have access to public information and such investors are not provided with the same amount of information that they would receive if the securities offering was a public offering. Moreover, many companies using private placements do so to raise equity capital in the start-up phase of their business or require additional capital to complete another phase in their growth objective. In addition, the securities issued in connection with private placements are restricted securities, which means that they are not traded on a secondary market, such as a stock exchange, and they are thus illiquid and cannot be readily converted to cash.

A.5.i. Options on Securities

A call option is a contract under which the purchaser of the call option, in return for a premium paid, has the right to buy the security (or index) underlying the option at a specified price at any time during the term of the option. The writer of the call option, who receives the premium, has the obligation upon exercise of the option to deliver the underlying security against payment of the exercise price. A put option gives its purchaser, in return for a premium, the right to sell the underlying security at a specified price during the term of the option. The writer of the put, who receives the premium, has the obligation to buy, upon

exercise of the option, the underlying security (or a cash amount equal to the value of the index) at the exercise price. The amount of a premium received or paid for an option is based upon certain factors, including the market price of the underlying security, the relationship of the exercise price to the market price, the historical price volatility of the underlying security, the option period and interest rates.

A.5.j. Pooled Investment Vehicles

A pooled investment vehicle, such as a commodity pool or investment company, is generally offered only to investors who meet specified suitability, net worth and annual income criteria. Pooled investment vehicles sell securities through private placements and thus are illiquid and subject to a variety of risks that are disclosed in each pooled investment vehicle's confidential private placement memorandum or disclosure document. Investors should read these documents carefully and consult with their professional advisors prior to committing investment dollars. Because many of the securities involved in pooled investment vehicles do not have transparent trading markets from which accurate and current pricing information can be derived, or in the case of private equity investments where portfolio security companies are privately held with no publicly traded market, KCIA will be unable to monitor or verify the accuracy of such performance information.

A.5.k. Structured Products

Structured products are designed to facilitate highly customized risk-return objectives. While structured products come in many different forms, they typically consist of a debt security that is structured to make interest and principal payments based upon various assets, rates or formulas. Many structured products include an embedded derivative component. Structured products may be structured in the form of a security, in which case these products may receive benefits provided under federal securities law, or they may be cast as derivatives, in which case they are offered in the over-the-counter market and are subject to no regulation.

Investment in structured products includes significant risks, including valuation, liquidity, price, credit and market risks. One common risk associated with structured products is a relative lack of liquidity due to the highly customized nature of the investment. Moreover, the full extent of returns from the complex performance features is often not realized until maturity. As such, structured products tend to be more of a buy-and-hold investment decision rather than a means of getting in and out of a position with speed and efficiency.

Another risk with structured products is the credit quality of the issuer. Although the cash flows are derived from other sources, the products themselves are legally considered to be the issuing financial institution's liabilities. The vast majority of structured products are from high-investment-grade issuers only. Also, there is a lack of pricing transparency. There is no uniform standard for pricing, making it harder to compare the net-of-pricing attractiveness of alternative structured product offerings than it is, for instance, to compare the net expense ratios of different mutual funds or commissions among broker-dealers.

A.5.I. Government and Agency Mortgage-Backed Securities

The principal issuers or guarantors of mortgage-backed securities are the Government National Mortgage Association ("GNMA"), Fannie Mae ("FNMA") and the Federal Home Loan Mortgage Corporation ("FHLMC"). GNMA, a wholly owned U.S. government corporation within the Department of Housing and Urban Development ("HUD"), creates pass-through securities from pools of government-guaranteed (Farmers' Home Administration, Federal Housing Authority or Veterans Administration) mortgages. The principal and interest on GNMA pass-through securities are backed by the full faith and credit of the U.S. government.

FNMA, which is a U.S. government-sponsored corporation owned entirely by private stockholders that is subject to regulation by the secretary of HUD, and FHLMC, a corporate instrumentality of the U.S. government, issue pass-through securities from pools of conventional and federally insured and/or guaranteed residential mortgages. FNMA guarantees full and timely payment of all interest and principal, and FHLMC guarantees timely payment of interest and ultimate collection of principal of its pass-through securities. Mortgage-backed securities from FNMA and FHLMC are *not* backed by the full faith and credit of the U.S. government.

A.5.m. Corporate Debt Obligations

KCIA may invest in corporate debt obligations. Corporate debt obligations include corporate bonds, debentures, notes, commercial paper and other similar corporate debt instruments. Companies use these instruments to borrow money from investors. The issuer pays the investor a fixed or variable rate of interest and must repay the amount borrowed at maturity. Commercial paper (short-term unsecured promissory notes) is issued by companies to finance their current obligations and normally has a maturity of less than nine months. In addition, KCIA may invest in corporate debt securities registered and sold in the United States by foreign issuers (Yankee bonds) and those sold outside the U.S. by foreign or U.S. issuers (Eurobonds).

A.5.n. Mortgage-Backed Securities

KCIA may invest in mortgage-backed securities, including pass-through securities and collateralized obligations. Mortgage-backed securities represent interests in a pool of mortgage loans originated by lenders such as commercial banks, savings associations, and mortgage bankers and brokers. Mortgage-backed securities may be issued by governmental or government-related entities, or by non-governmental entities such as special-purpose trusts created by commercial lenders.

Pools of mortgages consist of whole mortgage loans or participations in mortgage loans. The majority of these loans are made to purchasers of between one and four family homes. The terms and characteristics of the mortgage instruments are generally uniform within a pool but may vary among pools. For example, in addition to fixed-rate, fixed-term mortgages, KCIA may purchase pools of adjustable-rate mortgages, growing equity mortgages, graduated payment mortgages and other types. Mortgage poolers apply qualification standards to lending institutions, which originate mortgages for the pools as well as credit standards and

underwriting criteria for individual mortgages included in the pools. In addition, many mortgages included in pools are insured through private mortgage insurance companies.

Mortgage-backed securities differ from other forms of fixed income securities, which normally provide for periodic payment of interest in fixed amounts with principal payments at maturity or on specified call dates. Most mortgage-backed securities, however, are pass-through securities, which means that investors receive payments consisting of a pro rata share of both principal and interest (less servicing and other fees), as well as unscheduled prepayments as loans in the underlying mortgage pool are paid off by the borrowers. Additional prepayments to holders of these securities are caused by prepayments resulting from the sale or foreclosure of the underlying property or refinancing of the underlying loans. As prepayment rates of individual pools of mortgage loans vary widely, it is not possible to accurately predict the average life of a particular mortgage-backed security. Although mortgage-backed securities are issued with stated maturities of up to 40 years, unscheduled or early payments of principal and interest on the mortgages may shorten considerably the securities' effective maturities.

A.5.o. Collateralized Obligations

KCIA may invest in collateralized mortgage obligations ("CMOs") that are collateralized by mortgage-backed securities issued by GNMA, FHLMC or FNMA ("mortgage assets"). CMOs are multiple-class debt obligations. Payments of principal and interest on the mortgage assets are passed through to the holders of the CMOs as they are received, although certain classes (often referred to as "tranches") of CMOs have priority over other classes with respect to the receipt of mortgage prepayments. Each tranche is issued at a specific or floating coupon rate and has a stated maturity or final distribution date. Interest is paid or accrues in all tranches on a monthly, quarterly or semi-annual basis. Payments of principal and interest on mortgage assets are commonly applied to the tranches in the order of their respective maturities or final distribution dates, so that generally no payment of principal will be made on any tranche until all other tranches with earlier stated maturity or distribution dates have been paid in full.

KCIA may also invest in collateralized debt obligations ("CDOs"), which include collateralized bond obligations ("CBOs"), collateralized loan obligations ("CLOs") and other similarly structured securities. CBOs and CLOs are types of asset-backed securities. A CBO is a trust that is backed by a diversified pool of high-risk, below-investment-grade fixed income securities. A CLO is a trust typically collateralized by a pool of loans, which may include, among others, domestic and foreign senior secured loans, senior unsecured loans and subordinate corporate loans, including loans that may be rated below investment grade or equivalent unrated loans.

B. Investment Strategy and Method of Analysis Material Risks

B.1. Leverage

Although KCIA, as a general business practice, does not utilize leverage, there may be instances in which exchange-traded funds, other separate account managers and, in very limited circumstances, KCIA will utilize leverage. In this regard please review the following:

The use of leverage enhances the overall risk of investment gain and loss to the client's investment portfolio. For example, investors are able to control \$2 of a security for \$1. So if the price of a security rises by \$1, the investor earns a 100% return on their investment. Conversely, if the security declines by \$.50, then the investor loses 50% of their investment. The use of leverage entails borrowing, which results in additional interest costs to the investor.

Broker-dealers who carry customer accounts have a minimum equity requirement when clients utilize leverage. The minimum equity requirement is stated as a percentage of the value of the underlying collateral security with an absolute minimum dollar requirement. For example, if the price of a security declines in value to the point where the excess equity used to satisfy the minimum requirement dissipates, the broker-dealer will require the client to deposit additional collateral to the account in the form of cash or marketable securities. A deposit of securities to the account will require a larger deposit, as the security being deposited is included in the computation of the minimum equity requirement. In addition, when leverage is utilized and the client needs to withdraw cash, the client must sell a disproportionate amount of collateral securities to release enough cash to satisfy the withdrawal amount based upon similar reasoning as cited above.

Regulations concerning the use of leverage are established by the Federal Reserve Board and vary if the client's account is held at a broker-dealer versus a bank custodian. Broker-dealers and bank custodians may apply more stringent rules as they deem necessary.

B.2. Short-Term Trading

Although KCIA, as a general business practice, does not utilize short-term trading, there may be instances in which short-term trading may be necessary or an appropriate strategy. In this regard, please read the following:

There is an inherent risk for clients who trade frequently in that high-frequency trading creates substantial transaction costs that in the aggregate could negatively impact account performance.

B.3. Short Selling

KCIA generally does not engage in short selling but reserves the right to do so in the exercise of its sole judgment. Short selling involves the sale of a security that is borrowed rather than owned. When a short sale is effected, the investor is expecting the price of the security to decline in value so that a purchase or closeout of the short sale can be effected at a significantly lower price. The primary risks of effecting short sales is the availability to borrow the stock, the unlimited potential for loss, and the requirement to fund any difference between the short credit balance and the market value of the security.

B.4. Option Strategies

Various option strategies give the holder the right to acquire or sell underlying securities at the contract strike price up until expiration of the option. Each contract is worth 100 shares of the underlying security. Options entail greater risk but allow an investor to have market exposure to a particular security or group of securities without the capital commitment required to purchase

the underlying security or groups of securities. In addition, options allow investors to hedge security positions held in the portfolio. For detailed information on the use of options and option strategies, please contact the Options Clearing Corporation for the current Options Risk Disclosure Statement.

KCIA as part of its investment strategy may employ the following option strategies:

- Covered call writing
- Long call options purchases
- Long put options purchases
- Option spreading
- Short call option strategy
- Short put option strategy
- Equity collars
- Long straddles

B.4.a. Covered Call Writing

Covered call writing is the sale of in-, at-, or out-of-the money call option against a long security position held in the client portfolio. This type of transaction is used to generate income. It also serves to create downside protection in the event the security position declines in value. Income is received from the proceeds of the option sale. Such income may be reduced to the extent it is necessary to buy back the option position prior to its expiration. This strategy may involve a degree of trading velocity, transaction costs and significant losses if the underlying security has volatile price movement. Covered call strategies are generally suited for companies with little price volatility.

B.4.b Long Call Option Purchases

Long call option purchases allow the option holder to be exposed to the general market characteristics of a security without the outlay of capital necessary to own the security. Options are wasting assets and expire (usually within nine months of issuance), and as a result can expose the investor to significant loss.

B.4.c. Long Put Option Purchases

Long put option purchases allow the option holder to sell or “put” the underlying security at the contract strike price at a future date. If the price of the underlying security declines in value, the value of the long put option increases. In this way long puts are often used to hedge a long stock position. Options are wasting assets and expire (usually within nine months of issuance), and as a result can expose the investor to significant loss.

B.4.d Option Spreading

Option spreading usually involves the purchase of a call option and the sale of a call option at a higher contract strike price, both having the same expiration month. The purpose of this type of transaction is to allow the holder to be exposed to the general market characteristics

of a security without the outlay of capital to own the security, and to offset the cost by selling the call option with a higher contract strike price. In this type of transaction, the spread holder “locks in” a maximum profit, defined as the difference in contract prices reduced by the net cost of implementing the spread. There are many variations of option spreading strategies; please contact the Options Clearing Corporation for a current Options Risk Disclosure Statement that discusses each of these strategies.

B.4.e. Short Call Option Strategy

Short call option strategy is highly speculative and has theoretical potential for unlimited loss. The seller (writer) of the call option receives proceeds (premium) from the sale of the option. The expectation is that the value of the underlying security will remain below the contract strike price and the option will expire worthless, allowing the option writer to keep the entire amount of the sale proceeds (premium). Should the value of the underlying security increase above the contract strike price, then the option writer can either purchase the call option at a loss, or through a process of exercise and assignment be forced to sell the stock at the contract strike price. If this happens, the option writer will have to go in the open market and buy an equivalent amount of stock to cover the sale at prices that can be materially higher than the amount received from the sale.

B.4.f. Short Put Option Strategy

Short put option strategy is highly speculative and has theoretical potential for significant loss. The seller (writer) of the put option receives proceeds (premium) from the sale of the option. The expectation is that the value of the underlying security will remain above the contract strike price and the option will expire worthless, allowing the option writer to keep the entire amount of the sale proceeds (premium). Should the value of the underlying security decrease below the contract strike price, the option writer can either purchase the put option at a loss, or through a process of exercise and assignment be forced to buy the stock at the contract strike price. If this happens, the option writer will be purchasing the underlying security at a price potentially well above its then-current market value, exposing the investor to potential loss.

B.4.g. Equity Collar

A collar combines both a cap and a floor. A cap gives the purchaser of the cap the right (for a premium payment), but not the obligation, to receive the difference in the cost on some amount when a specified index rises above the specified “cap rate.” A floor is the opposite of a cap—it gives the purchaser of the floor the right (for a premium payment), but not the obligation, to receive the difference in interest payable on an amount when a specified index falls below the specified “floor rate.” A collar involving stock is called an “equity collar.” In a collar transaction, the buyer of the collar purchases a cap while selling a floor indexed to the same rate or asset. A zero-cost collar results when the premium earned by selling a floor exactly offsets the cap premium.

B.4.h. Long Straddle

A long straddle is the purchase of a long call and a long put with the same underlying security, expiration date and strike price. This is a speculative trade that may be profitable when volatility is high and will result in a loss when prices of the underlying security are relatively stable.

C. Security-Specific Material Risks

There is an inherent risk for clients whose investment portfolios lack diversification—that is, they have their investment portfolios heavily weighted in one security, one industry or industry sector, one geographic location, one investment manager, one type of investment instrument (equities versus fixed income). Clients who have diversified portfolios, as a general rule, incur less volatility and therefore less fluctuation in portfolio value than those who have concentrated holdings. Concentrated holdings may offer the potential for higher gain, but also offer the potential for significant loss.

Item 9: Disciplinary Information

A. Criminal or Civil Actions

KCIA has nothing to disclose for this item.

B. Administrative Enforcement Proceedings

On April 4, 2013, the investment advisory license of Asher Wolmark, one of the firm's principal owners, was temporarily revoked pending payment of outstanding taxes. His license was reinstated June 7, 2013. Public information concerning Mr. Wolmark's registration as an investment advisor representative and the disclosure event may be found by accessing the SEC's public disclosure site at www.adviserinfo.sec.gov.

C. Self-Regulatory Organization Enforcement Proceedings

KCIA has nothing to disclose for this item.

Item 10: Other Financial Industry Activities and Affiliations

A. Broker-Dealer or Representative Registration

Officers and certain of KCIA's independent contractors are registered representatives of broker-dealers registered with the Securities and Exchange Commission ("SEC") and the Financial Regulatory Authority, Inc. ("FINRA"). KCIA advisory clients are not compelled to effect securities transactions through any specific broker-dealers.

As a result of KCIA professionals' affiliation with other broker-dealers, they are subject to the oversight of that broker-dealer and the Financial Industry Regulatory Authority, Inc. ("FINRA"). As such, clients of KCIA should understand that their personal and account information is available to FINRA and broker-dealer personnel in the fulfillment of their oversight obligations and duties.

B. Futures or Commodity Registration

Neither KCIA nor its affiliates are registered as a commodity firm, futures commission merchant, commodity pool operator, or commodity trading adviser and do not have an application to register pending.

C. Material Relationships Maintained by this Advisory Business and Conflicts of Interest

C.1. DHC 2016 Management LLC and DHC 2016 LLC

DHC 2016 Management LLC is a Delaware limited liability company organized to serve as the manager of DHC 2016 LLC, an affiliate private fund. Asher Wolmark and William Vellon are each owners of DHC 2016 Management. Please be advised of the potential conflict of interest in that KCIA has an economic incentive to recommend an investment in its affiliate fund.

C.2. Broker-Dealer Activities

Please see Item 10.A. above.

D. Recommendation or Selection of Other Investment Advisors and Conflicts of Interest

Other than as disclosed in Item 10.C above, KCIA does not recommend securities investment products in which it receives any form of compensation from the investment product sponsor. KCIA does recommend insurance products that may include variable annuity products. KCIA's professionals, who maintain both a securities broker-dealer and insurance license, do receive commission payments for the sale of such insurance products. However, such variable annuity and insurance products are not included as part of the investment advisory relationship between the client and KCIA.

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

A. Code of Ethics Description

In accordance with the Advisers Act, KCIA has adopted policies and procedures designed to detect and prevent insider trading. In addition, KCIA has adopted a Code of Ethics (the "Code"). Among other things, the Code includes written procedures governing the conduct of KCIA's advisory and access persons. The Code also imposes certain reporting obligations on persons subject to the Code. The Code and applicable securities transactions are monitored by the Chief Compliance Officer of KCIA. KCIA will send clients a copy of its Code of Ethics upon written request.

KCIA has policies and procedures in place to ensure that the interests of its clients are given preference over those of KCIA, its affiliates and its employees. For example, there are policies in place to prevent the misappropriation of material nonpublic information, and such other policies and procedures reasonably designed to comply with federal and state securities laws.

B. Investment Recommendations Involving a Material Financial Interest and Conflicts of Interest

KCIA does not engage in principal trading (i.e., the practice of selling stock to advisory clients from a firm's inventory or buying stocks from advisory clients into a firm's inventory). In addition, KCIA does not recommend any securities to advisory clients in which it has some proprietary or ownership interest.

C. Advisory Firm Purchase of Same Securities Recommended to Clients and Conflicts of Interest

KCIA, its affiliates, employees and their families, trusts, estates, charitable organizations, and retirement plans established by it may purchase the same securities as are purchased for clients in accordance with its Code of Ethics policies and procedures. The personal securities transactions by advisory representatives and employees may raise potential conflicts of interest when they trade in a security that is:

- owned by the client, or
- considered for purchase or sale for the client.

Such conflict generally refers to the practice of front-running (trading ahead of the client), which KCIA specifically prohibits. KCIA has adopted policies and procedures that are intended to address these conflicts of interest. These policies and procedures:

- require our advisory representatives and employees to act in the client's best interest
- prohibit fraudulent conduct in connection with the trading of securities in a client account

- prohibit employees from personally benefitting by causing a client to act, or fail to act in making investment decisions
- prohibit the firm or its employees from profiting or causing others to profit on knowledge of completed or contemplated client transactions
- allocate investment opportunities in a fair and equitable manner
- provide for the review of transactions to discover and correct any trades that result in an advisory representative or employee benefitting at the expense of a client.

Advisory representatives and employees must follow KCIA's procedures when purchasing or selling the same securities purchased or sold for the client.

D. Client Securities Recommendations or Trades and Concurrent Advisory Firm Securities Transactions and Conflicts of Interest

KCIA, its affiliates, employees and their families, trusts, estates, charitable organizations, and retirement plans established by it may effect securities transactions for their own accounts that differ from those recommended or effected for other KCIA clients. KCIA will make a reasonable attempt to trade securities in client accounts at or prior to trading the securities in its affiliate, corporate, employee or employee-related accounts. Trades executed the same day will likely be subject to an average pricing calculation. It is the policy of KCIA to place its clients' interests above those of KCIA and its employees.

Item 12: Brokerage Practices

A. Factors Used to Select Broker-Dealers for Client Transactions

A.1. Custodian Recommendations

KCIA participates in the institutional customer program of TD Ameritrade Institutional, a division of TD Ameritrade, Inc. ("TD Ameritrade"), a FINRA registered broker-dealer, member SIPC, to maintain custody of clients' assets and to effect trades for their accounts. Although KCIA may recommend that clients establish accounts at TD Ameritrade, it is the client's decision to custody assets with the custodian. KCIA is independently owned and operated and not affiliated with TD Ameritrade. For KCIA client accounts maintained in its custody, TD Ameritrade generally does not charge separately for custody services but is compensated by account holders through commissions and other transaction-related or asset-based fees for securities trades that are executed through the custodian or that settle into custodian accounts.

KCIA considers the financial strength, reputation, operational efficiency, cost, execution capability, level of customer service, and related factors in recommending broker-dealers or custodians to advisory clients.

In certain instances and subject to approval by KCIA, KCIA will recommend to clients certain other broker-dealers and/or custodians based on the needs of the individual client, and taking into consideration the nature of the services required, the experience of the broker-dealer or custodian, the cost and quality of the services, and the reputation of the broker-dealer or custodian. The final determination to engage a broker-dealer or custodian recommended by KCIA will be made by and in the sole discretion of the client. The client recognizes that broker-dealers and/or custodians have different cost and fee structures and trade execution capabilities. As a result, there may be disparities with respect to the cost of services and/or the transaction prices for securities transactions executed on behalf of the client. Clients are responsible for assessing the commissions and other costs charged by broker-dealers and/or custodians.

A.1.a. How We Select Brokers/Custodians to Recommend

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

- 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 client accounts)
- 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 the provider
- their prior service to us and our other clients
- availability of other products and services that benefit us, as discussed below

A.1.a. Soft Dollar Arrangements

KCIA does not utilize soft dollar arrangements. KCIA does not direct brokerage transactions to executing brokers for research and brokerage services.

A.1.b. Institutional Trading and Custody Services

TD Ameritrade provides KCIA with access to their institutional trading and custody services, which are typically not available to TD Ameritrade's retail investors. These services generally are available to independent investment advisors on an unsolicited basis, at no charge to them so long as a certain minimum amount of the advisor's clients' assets are maintained in accounts at TD Ameritrade. TD Ameritrade's brokerage services include the execution of securities transactions, custody, research, and access to mutual funds and other investments that are otherwise generally available only to institutional investors or would require a significantly higher minimum initial investment.

A.1.c. Other Products and Services

TD Ameritrade also makes available to KCIA other products and services that benefit KCIA but may not directly benefit its clients' accounts. Many of these products and services may be used to service all or some substantial number of KCIA's accounts, including accounts not maintained at custodian. TD Ameritrade may also make available to KCIA software and other technology that

- provide access to client account data (such as trade confirmations and account statements)
- facilitate trade execution and allocate aggregated trade orders for multiple client accounts
- provide research, pricing and other market data
- facilitate payment of KCIA's fees from its clients' accounts
- assist with back-office functions, recordkeeping and client reporting

TD Ameritrade may also offer other services intended to help KCIA manage and further develop its business enterprise. These services may include

- compliance, legal and business consulting
- publications and conferences on practice management and business succession

- access to employee benefits providers, human capital consultants and insurance providers

TD Ameritrade may also provide other benefits such as educational events or occasional business entertainment of KCIA personnel. In evaluating whether to recommend that clients custody their assets at the custodian, KCIA may take into account the availability of some of the foregoing products and services and other arrangements as part of the total mix of factors it considers, and not solely the nature, cost or quality of custody and brokerage services provided by the custodian, which may create a potential conflict of interest.

A.1.d. Independent Third Parties

TD Ameritrade may make available, arrange, and/or pay third-party vendors for the types of services rendered to KCIA. TD Ameritrade may discount or waive fees it would otherwise charge for some of these services or all or a part of the fees of a third party providing these services to KCIA.

A.1.e. Additional Compensation Received from Custodians

KCIA may participate in institutional customer programs sponsored by broker-dealers or custodians. KCIA may recommend these broker-dealers or custodians to clients for custody and brokerage services. There is no direct link between KCIA's participation in such programs and the investment advice it gives to its clients, although KCIA receives economic benefits through its participation in the programs that are typically not available to retail investors. These benefits may include the following products and services (provided without cost or at a discount):

- Receipt of duplicate client statements and confirmations
- Research-related products and tools
- Consulting services
- Access to a trading desk serving KCIA participants
- Access to block trading (which provides the ability to aggregate securities transactions for execution and then allocate the appropriate shares to client accounts)
- The ability to have advisory fees deducted directly from client accounts
- Access to an electronic communications network for client order entry and account information
- Access to mutual funds with no transaction fees and to certain institutional money managers
- Discounts on compliance, marketing, research, technology, and practice management products or services provided to KCIA by third-party vendors

The custodian may also pay for business consulting and professional services received by KCIA's related persons, and may pay or reimburse expenses (including client transition expenses, travel, lodging, meals and entertainment expenses for KCIA's personnel to attend conferences). Some of the products and services made available by such custodian through its institutional customer programs may benefit KCIA but may not benefit its client accounts.

These products or services may assist KCIA in managing and administering client accounts, including accounts not maintained at the custodian as applicable. Other services made available through the programs are intended to help KCIA manage and further develop its business enterprise. The benefits received by KCIA or its personnel through participation in these programs do not depend on the amount of brokerage transactions directed to the broker-dealer.

KCIA also participates in similar institutional advisor programs offered by other independent broker-dealers or trust companies, and its continued participation may require KCIA to maintain a predetermined level of assets at such firms. In connection with its participation in such programs, KCIA will typically receive benefits similar to those listed above, including research, payments for business consulting and professional services received by KCIA's related persons, and reimbursement of expenses (including travel, lodging, meals and entertainment expenses for KCIA's personnel to attend conferences sponsored by the broker-dealer or trust company).

As part of its fiduciary duties to clients, KCIA endeavors at all times to put the interests of its clients first. Clients should be aware, however, that the receipt of economic benefits by KCIA or its related persons in and of itself creates a potential conflict of interest and may indirectly influence KCIA's recommendation of broker-dealers such as TD Ameritrade for custody and brokerage services.

A.2. Brokerage for Client Referrals

KCIA does not engage in the practice of directing brokerage commissions in exchange for the referral of advisory clients.

A.3. Directed Brokerage

A.3.a. KCIA Recommendations

KCIA typically recommends TD Ameritrade as custodian for clients' funds and securities and to execute securities transactions on its clients' behalf.

A.3.b Client-Directed Brokerage

Occasionally, clients may direct KCIA to use a particular broker-dealer to execute portfolio transactions for their account or request that certain types of securities not be purchased for their account. Clients who designate the use of a particular broker-dealer should be aware that they will lose any possible advantage KCIA derives from aggregating transactions. Such client trades are typically effected after the trades of clients who have not directed the use of a particular broker-dealer. KCIA loses the ability to aggregate trades with other KCIA advisory clients, potentially subjecting the client to inferior trade execution prices as well as higher commissions.

B. Aggregating Securities Transactions for Client Accounts

B.1. Best Execution

KCIA, pursuant to the terms of its investment advisory agreement with clients, has discretionary authority to determine which securities are to be bought and sold, and the price of such securities. KCIA effects securities transactions through the clients' custodian unless as otherwise directed by the client. KCIA recognizes that the analysis of execution quality involves a number of factors, both qualitative and quantitative. KCIA will follow a process in an attempt to ensure that it is seeking to obtain the most favorable execution under the prevailing circumstances when placing client orders. These factors include but are not limited to the following:

- The financial strength, reputation and stability of the broker
- The efficiency with which the transaction is effected
- The ability to effect prompt and reliable executions at favorable prices (including the applicable dealer spread or commission, if any)
- The availability of the broker to stand ready to effect transactions of varying degrees of difficulty in the future
- The efficiency of error resolution, clearance and settlement
- Block trading and positioning capabilities
- Performance measurement
- Online access to computerized data regarding customer accounts
- Availability, comprehensiveness, and frequency of brokerage and research services
- Commission rates
- The economic benefit to the client
- Related matters involved in the receipt of brokerage services

Consistent with its fiduciary responsibilities, KCIA seeks to ensure that clients receive best execution with respect to clients' transactions by blocking client trades to reduce commissions and transaction costs. To the best of KCIA's knowledge, these custodians provide high-quality execution, and KCIA's clients do not pay higher transaction costs in return for such execution.

Commission rates and securities transaction fees charged to effect such transactions are established by the client's independent custodian and/or broker-dealer. Based upon its own knowledge of the securities industry, KCIA believes that such commission rates are competitive within the securities industry. Lower commissions or better execution may be able to be achieved elsewhere.

B.2. Security Allocation

Since KCIA may be managing accounts with similar investment objectives, KCIA may aggregate orders for securities for such accounts. In such event, allocation of the securities so purchased or sold, as well as expenses incurred in the transaction, is made by KCIA in the manner it considers to be the most equitable and consistent with its fiduciary obligations to such accounts.

KCIA's allocation procedures seek to allocate investment opportunities among clients in the fairest possible way, taking into account the clients' best interests. KCIA will follow procedures to ensure that allocations do not involve a practice of favoring or discriminating against any client or group of clients. Account performance is never a factor in trade allocations.

KCIA's advice to certain clients and entities and the action of KCIA for those and other clients are frequently premised not only on the merits of a particular investment, but also on the suitability of that investment for the particular client in light of his or her applicable investment objective, guidelines and circumstances. Thus, any action of KCIA with respect to a particular investment may, for a particular client, differ, or be opposed to the recommendation, advice, or actions of KCIA to or on behalf of other clients.

B.3. Order Aggregation

Orders for the same security entered on behalf of more than one client will generally be aggregated (i.e., blocked or bunched) subject to the aggregation being in the best interests of all participating clients. Subsequent orders for the same security entered during the same trading day may be aggregated with any previously unfilled orders. Subsequent orders may also be aggregated with filled orders if the market price for the security has not materially changed and the aggregation does not cause any unintended duration exposure. All clients participating in each aggregated order will receive the average price and, subject to minimum ticket charges and possible step outs, pay a pro rata portion of commissions.

To minimize performance dispersion, "strategy" trades should be aggregated and average priced. However, when a trade is to be executed for an individual account and the trade is not in the best interests of other accounts, then the trade will only be performed for that account. This is true even if KCIA believes that a larger size block trade would lead to best overall price for the security being transacted.

B.4. Allocation of Trades

All allocations will be made prior to the close of business on the trade date. In the event an order is "partially filled," the allocation will 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. In most cases, accounts will get a pro forma allocation based on the initial allocation. This policy also applies if an order is "over-filled."

KCIA acts in accordance with its duty to seek best price and execution and will not continue any arrangements if the firm determines that such arrangements are no longer in the best interest of its clients.

Item 13: Review of Accounts

A. Schedule for Periodic Review of Client Accounts or Financial Plans and Advisory Persons Involved

The review of accounts of high-net-worth individuals and related trusts, charitable entities, corporations, and other business entities is conducted in the first instance by the portfolio manager servicing the client relationship. Such professionals are subject to the general authority of KCIA's Managing Member and Chief Compliance Officer. The Managing Member or his designee(s) must review and approve the opening of each new advisory relationship and oversee reviews of client accounts. The Managing Member or his designee(s) is also responsible for ensuring that any significant change in a client's investment strategy or in the concentration of a client's assets is appropriate for and has been reviewed with the client. Reviews for managed accounts consist of an analysis of the following factors:

- Client investment objectives
- Industry issues
- Credit issues
- Information concerning individual holdings in portfolios
- Review of performance versus benchmark and performance attribution

B. Review of Client Accounts on Non-Periodic Basis

KCIA may perform ad hoc reviews on an as-needed basis if there have been material changes in the client's investment objectives or risk tolerance, or a material change in how KCIA formulates investment advice.

C. Content of Client-Provided Reports and Frequency

KCIA typically provides written reports to clients on a quarterly basis. These reports include:

- Changes in market values
- Comparison to an appropriate benchmark index

KCIA will provide reports showing the investment performance of the client's account and a comparison of such account performance against relevant benchmarks. The client's independent custodian also provides regular account statements directly to the client. The custodian's statement is the official record of the client's securities account and supersedes any statements or reports created on behalf of the client by KCIA.

Item 14: Client Referrals and Other Compensation

A. Economic Benefits Provided to the Advisory Firm from External Sources and Conflicts of Interest

A.1. Institutional Retirement Investment Advisory Services – Potential Conflicts of Interest

- *Compensation:* KCIA is compensated based on an asset based pricing model. KCIA does not collect or otherwise participate in commissions or 12b-1 fees that may be charged on investments.
- *Finder's Fees:* KCIA does not collect or otherwise participate in finder's fees. Vendors are chosen based on merit and their ability to satisfy the needs of the plan sponsor clients.
- *Rollovers:* KCIA's obligation is to service the plan. However, there may be occasion where KCIA is approached by an individual plan participant for individualized services, which may include investment recommendations for that participant. KCIA in its role as advisor to the plan recognizes its fiduciary obligation to the plan (and participants). However should an individual participant seek advisor services as an individual, such services shall be separate and distinct to the services provided to the plan and subject to an analysis of investment options, services and fees that the participant is paying in the current plan versus the anticipated investment options, services and fees in the proposed arrangement.
- *Principal Trading:* KCIA does not engage in principal trading and does not offer proprietary funds.
- *Passive/Active:* KCIA does not subscribe to, or favor, a Passive or Active fund style. KCIA is committed to delivering a fund menu and choices that are appropriate for the plan and its participants.
- *Share Class:* KCIA does not subscribe to, or favor, a specific share class model. KCIA is committed to delivering a fund menu and share class choices that are appropriate for the plan and its participants.
- *Model/Custom Portfolios:* KCIA may advise the use of custom, asset allocation, life cycle or lifestyle funds with the intent of providing appropriate choices for the plan and its participants. Such funds may carry higher internal expenses which are paid to the fund, not to KCIA.
- *Soft Dollar:* KCIA does not directly participate in soft dollar revenue. However, KCIA may be the beneficiary of services made available by a fund company or the plan custodian (TD Ameritrade Institutional) as a regular course of doing business. Such benefits may include, but may not be limited to, professional educational seminars and/or workshops, research, practice management, technology and continuing education benefits.

B. Advisory Firm Payments for Client Referrals

KCIA does not have any agreements with solicitors who will refer prospective advisory clients to KCIA in return for a portion of the ongoing investment advisory fee.

Item 15: Custody

KCIA is considered to have custody of client assets for purposes of the Advisers Act for the following reasons:

- The client authorizes us to instruct their custodian to deduct our advisory fees directly from the client's account. The custodian maintains actual custody of clients' assets.
- Our authority to direct client requests, utilizing standing instructions, for wire transfer of funds for first-party money movement and third-party money movement (checks and/or journals, ACH, Fed-wires). The firm has elected to meet the SEC's seven conditions to avoid the surprise custody exam, as outlined below:
 1. The client provides an instruction to the qualified custodian, in writing, that includes the client's signature, the third party's name, and either the third party's address or the third party's account number at a custodian to which the transfer should be directed.
 2. The client authorizes the investment adviser, in writing, either on the qualified custodian's form or separately, to direct transfers to the third party either on a specified schedule or from time to time.
 3. The client's qualified custodian performs appropriate verification of the instruction, such as a signature review or other method to verify the client's authorization, and provides a transfer of funds notice to the client promptly after each transfer.
 4. The client has the ability to terminate or change the instruction to the client's qualified custodian.
 5. The investment adviser has no authority or ability to designate or change the identity of the third party, the address, or any other information about the third party contained in the client's instruction.
 6. The investment adviser maintains records showing that the third party is not a related party of the investment adviser or located at the same address as the investment adviser.
 7. The client's qualified custodian sends the client, in writing, an initial notice confirming the instruction and an annual notice reconfirming the instruction.

Individual advisory clients will receive at least quarterly account statements directly from their custodian containing a description of all activity, cash balances, and portfolio holdings in their accounts. Clients are urged to compare the account balance(s) shown on their account statements to the quarter-end balance(s) on their custodian's monthly statement. The custodian's statement is the official record of the account.

Item 16: Investment Discretion

Clients may grant a limited power of attorney to KCIA with respect to trading activity in their accounts by signing the appropriate custodian limited power of attorney form. In those cases, KCIA will exercise full discretion as to the nature and type of securities to be purchased and sold, and the amount of securities. Investment limitations may be designated by the client as outlined in the investment advisory agreement.

Item 17: Voting Client Securities

KCIA does not take discretion with respect to voting proxies on behalf of its clients. KCIA will endeavor to make recommendations to clients on voting proxies regarding shareholder vote, consent, election or similar actions solicited by, or with respect to, issuers of securities beneficially held as part of KCIA supervised and/or managed assets. In no event will KCIA take discretion with respect to voting proxies on behalf of its clients.

Except as required by applicable law, KCIA will not be obligated to render advice or take any action on behalf of clients with respect to assets presently or formerly held in their accounts that become the subject of any legal proceedings, including bankruptcies.

From time to time, securities held in the accounts of clients will be the subject of class action lawsuits. KCIA has no obligation to determine if securities held by the client are subject to a pending or resolved class action lawsuit. KCIA also has no duty to evaluate a client's eligibility or to submit a claim to participate in the proceeds of a securities class action settlement or verdict. Furthermore, KCIA has no obligation or responsibility to initiate litigation to recover damages on behalf of clients who may have been injured as a result of actions, misconduct, or negligence by corporate management of issuers whose securities are held by clients.

Where KCIA receives written or electronic notice of a class action lawsuit, settlement, or verdict affecting securities owned by a client, it will forward all notices, proof of claim forms, and other materials to the client. Electronic mail is acceptable where appropriate and where the client has authorized contact in this manner.

Item 18: Financial Information

A. Balance Sheet

KCIA, as a result of its practice to instruct the clients' custodian to directly debit and disburse its management fees (subject to clients' written authorization), is required to file an unaudited balance sheet with the State of Illinois. KCIA does not require the prepayment of fees of \$1,200 or more, six months or more in advance.

B. Financial Conditions Reasonably Likely to Impair Advisory Firm's Ability to Meet Commitments to Clients

KCIA does not have any financial issues that would impair its ability to provide services to clients.

C. Bankruptcy Petitions During the Past Ten Years

There are no bankruptcy petitions to report.