

PART V: Registered Investment Advisers

- I. Registration Requirement.** KCD and KCD Investment Adviser Representatives (IARs) must be registered with all appropriate federal and state regulatory authorities. KCD does not allow any outside registered investment advisory activities.

KCD is registered with the Securities and Exchange Commission and is a notice filer in each State where advisory activities will be conducted. KCD's Form ADV Parts 1 and 2A are updated periodically as needed to meet specific requirements. The Form ADV Parts 1 and 2A will also be updated annually to reflect any registration changes. Updated Form ADV Part 2A documents will be provided to each individual IAR and the IARs will provide them to current advisory clients.

- A. Limited Registered Representatives.** IARs who are otherwise in compliance with applicable federal and state registration requirements, such as the SEC's investment adviser registration requirements, may not execute transactions in securities not covered by his or her FINRA registration. A limited representative who wishes to execute transactions in securities not covered by his or her registration category is required to pass an appropriate qualification exam. KCD does not allow any discretionary activity for RIA clients.
- II. Supervisory Responsibility.** KCD is responsible for the registered representative's involvement in registered investment advisory activities. The Designated Supervisory Principal maintains a record of approved IARs and IAR clients.
- A. Quarterly Review.** The Designated Supervisory Principal will conduct a quarterly review of the existing advisory agreements.
- B. Annual Review.** The Designated Supervisory Principal will conduct an annual review of the firm's investment advisory activities, and update ADV Part 1 of the IARD system accordingly.
- III. Training.** Registered representatives who are permitted to conduct investment advisory activities must complete specific training with regard to FINRA requirements and KCD procedures.
- IV. Client Information.** IARs must obtain sufficient information from clients to meet client identification and suitability requirements, as detailed in Section 10 of this manual.

Please note: Products with a fixed income are generally not suitable for RIA type accounts as there is limited need for ongoing management.

- V. Compensation.** All compensation for Investment Advisory activities must be described in a KCD Investment Advisory Services Agreement, signed by the client and the IAR, and approved by KCD.
- A. IARs are responsible for producing and mailing periodic invoices to clients, except in situations where appropriate agreements exist where fees are deducted directly from specified client accounts.
 - B. Invoice dates must correspond with the schedules agreed upon in the signed agreement.
 - C. All checks for advisory services shall be made payable to KCD.
 - D. In the event the annual fees and commissions of an individual client would possibly exceed a total of 3% of client's total invested assets, IAR must provide KCD with a detailed explanation of the extenuating circumstances and receive review and approval, as fees exceeding these limits could be considered unethical conduct in many circumstances.
- VI. Performance Reports.** The Designated Supervisory Principal must review and approve all performance reports created by IARs for their advisory clients to ensure that such reports are accurate, complete and not misleading or otherwise in violation of FINRA or SEC Rules.
- A. **Standardized Performance Reports.** Standardized reports sent to multiple clients are considered sales literature and must also be reviewed by the Designated Supervisory Principal before distribution by the IARs to clients. If the IAR uses the same standardized format for different clients, approval before use is required only on the performance report prototype.
 - B. **Individualized Performance Reports.** Individualized performance reports are considered correspondence and should be reviewed by the Designated Supervisory Principal under KCD's correspondence review procedures.
- VII. Alterations to Existing Agreements.** In the event of changes to an existing Investment Advisory Agreement, proper notification and approval must be submitted to the Designated Supervisory Principal:
- A. **Cancellation:** Notify KCD of the date and terms of termination.
 - B. **Waiver of Fee:** Notify KCD of the fee period involved and the reason for the waiver.

- C. **Client Address Changes or Account Registration Changes:** Submit an updated KCD New Account form or a Change of Address form, detailing the changed items.

VIII. Books and Records Relating to Investment Advisory Transactions

- A. **Required Books and Records.** At a minimum, the following books and records must be maintained as part of the record-keeping system:

1. Acknowledgement of KCD's approval of the IAR's intended activities as evidenced by the appropriate registration via FINRA's Web CRD system;
2. A list of registered representatives who are also IAR's along with a list of each advisor's clients;
3. Copies of client New Account Forms to determine, among other things, suitability; (as fully described in Section 10 of this manual);
4. Investment Advisory Agreements between the IAR and each advisory client must be approved by a Designated Principal and kept on file;
5. Advertising material and sales literature used by the IAR to promote investment advisory services must meet all of the supervisory requirements detailed in Sections 7 and 8 of this manual; and
6. Exception reports, where feasible, based on various occurrences or patterns of specified activity, such as frequency of trading, high compensation arrangements, large numbers of trade corrections, and canceled trades.

- B. **Notice.** KCD requires prior notice of the investment advisory services that will be provided by the IAR for an asset-based or a performance-based fee, rather than prior notice of each trade affected by an IAR for a particular client. This information is provided to KCD in the form of a signed Investment Advisory Services Agreement and a New Account Form and includes:

1. The identity of each client to whom the notice would apply;
2. A detailed description of the role of the IAR in the investment advisory activities and services to be conducted on behalf of each identified client;
3. Compensation arrangements; and

4. Complete client identification and financial information.
- C. Transactions.** When an IAR submits business transactions that have occurred within an RIA agreement, it must be noted that a commission was not charged due to the RIA arrangement.
- IX. Third Party Management Companies.** KCD has entered into selling agreements with third party asset management firms. When an adviser and a client have agreed to utilize a third party management firm, the following procedures apply:
- A.** In addition to all KCD documents described above, the following documents must be completed by the adviser and the client, and submitted to KCD for approval:
 1. Form ADV Part 2A for the third party firm; and
 2. Any applicable subscription agreements, or application forms required by the third party firm.
 - B.** All fees and payment schedules will defer to the approved methods utilized by the third party firm.
- X. Procedural Outline:** All IARs will follow the procedures set forth by KCD when transacting RIA business. (Please see addendum to this section for procedures outline.)
- XI. Communications with the Public:** All IARs will follow the procedures and regulations regarding any form of communications with the public (including advertising, sales literature, correspondence, seminars, etc.) as outlined in Section 11 of this Manual.
- XII. Code of Ethics:** IARs shall always conduct himself/herself in a manner that is beneficial for the client and adheres to the highest standards of ethical practices. IARs will not engage in any conduct which would be unlawful under the provisions described in any rule or regulation. IARs will be sensitive to conduct such as non-disclosures, incomplete disclosures, or deceptive practices and know such conduct is unethical.

The following practices are regarded by KCD Financial, Inc. as improper and will be met with appropriate disciplinary action:

- Accepting orders or checks from a third party for a client's account or opening an account from a third party;
- Preparing written research reports or recommendations on a security for general dissemination without prior supervisory review and approval;
- Entering into an advisory agreement at another firm without prior review and approval;
- Giving lectures or seminars without prior supervisory approval;
- Reproducing and giving to clients or others research material marked "broker-dealer use only";
- Giving specific tax or legal advice to clients; unless appropriately qualified;
- Passing on to clients or acting on inside information;
- Establishing fictitious accounts or otherwise engage in prohibited transactions;
- Executing transactions in any account on a discretionary basis; discretionary accounts are prohibited;
- Unauthorized use or borrowings of client funds or securities;
- Establishing "side" businesses, partnerships or ventures and enticing clients to invest without disclosure to the Company;
- Recommending the purchase of securities of a character or amount which are inconsistent with the client's stated objectives or financial ability;
- Splitting with or rebating, directly or indirectly, any commission or fee with a person not licensed with the Company;
- Sharing directly or indirectly in the profits or losses of any account without client authorization;
- Presenting the merits of any proposed investment in an exaggerated, hyperbolic fashion with no balanced discussion of risk;
- Concealing material adverse information about a proposed investment;
- Entering into a relationship with a financial institution (such as a wholesaler for a fund or insurance Company) whereby advertising, trips and other benefits are paid for without full discussion and clearance by the Company;
- Providing excessive gifts or gratuities to a client; and
- Guaranteeing a client a profit or a return on an investment.

XIII. General Compliance: All IARs will follow the procedures for processing and reporting Client Complaints, Insider Trading, Supervision, and related compliance as outlined throughout this Manual.

Addendum: Outline of Procedures**BEFORE YOU BEGIN OFFERING ADVISORY SERVICES THROUGH KCD FINANCIAL:**

1. Confirm your registration status in the state(s) in which you plan to provide advisory services.
2. Review Section 27 of KCD's Supervisory Policies and Procedures Manual and this Outline of Procedures to ensure you are aware of the appropriate course of action in providing advisory services. Complete and return the "Verification of Review" form to KCD when you have reviewed these documents.
3. Review KCD's Form ADV-Part 2A which details the various types of fee structures you can use in agreements with clients. This document is used like a 'prospectus' for investment advisory services.

INVOICING CLIENTS:

1. KCD provides IAR's with an invoice form to use when billing clients for investment advisory services. Billing schedules are established in the Investment Advisory Services Agreement with each client and must correspond to the billing periods approved in Form ADV – Part 2A.
2. IAR's are responsible for producing and mailing invoices to clients for financial planning, flat fee or hourly fee arrangements. **All payments must be made out to, and processed through KCD Financial, Inc.**

PROCEDURES FOR INVESTMENT ADVISORY CLIENTS:

1. A copy of Form ADV-Part 2A and Part 2B must be provided to each client prior to initiating any investment advisory services. These documents are also updated periodically and, when you are provided with an updated Form ADV-Part 2A or Part 2B, you need to forward a copy to each client currently receiving investment advisory services.
2. Complete a KCD New Account Form, appropriate KCD Investment Disclosure Form, and an Investment Advisory Services Agreement, detailing exactly what services and fee arrangements you have agreed upon. This document must be signed by the client and approved by a KCD Principal before any services can be initiated.
3. Performance Reports created by IAR's for their clients must be submitted to KCD for principal approval prior to use.
4. When utilizing third party management firms, all fee schedules and terms will defer to those detailed in the third party firm's agreements. Copies of all third party forms must be completed and submitted to KCD for approval prior to submission to the outside firms.