

**Kelman-Lazarov, Inc.**  
5100 Poplar Avenue, Suite 2805  
Memphis, TN 38137-2805  
(855) 273-6719

[www.kelman-lazarov.com](http://www.kelman-lazarov.com)

**Form ADV Part 2A**

**Brochure**

**March 27, 2019**

This Brochure provides information about the qualifications and business practices of Kelman-Lazarov, Inc. (“K-L”). If you have any questions about the contents of this Brochure, please contact K-L at (855) 273-6719 or [compliance@kelman-lazarov.com](mailto:compliance@kelman-lazarov.com). The information in this Brochure has not been approved or verified by the United States Securities and Exchange Commission (“SEC”) or by any state authority.

Additional information is also available on the SEC’s website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov) by searching for the unique IARD/CRD number for K-L, which is **107727**. The SEC’s website also provides information about any persons affiliated with K-L who are registered, or are required to be registered, as investment advisor representatives.

K-L is an investment adviser registered with the United States Securities and Exchange Commission. Registration does not imply a certain level of skill or training.

## Item 2: Material Changes

This Item 2 discloses material changes that have been made to this Brochure since the last annual update filed on March 21, 2018.

Since the last annual update of this Brochure, the following material changes have been made:

- Items 4 and 5: have been updated to remove reference to the Kelman-Lazarov Wrap Fee Program, which was closed and no longer has any investors.
- Item 4: has also been updated with respect to assets under management (AUM).
- Item 4: has also been revised to update the description of the Traditional Asset Management Program. Clients who participate in the Traditional Program will discuss with one of K-L's Financial Advisors ("FA") the Client's financial situation, investment objectives, tolerance for risk/volatility, among other factors, and the FA will assist the Client in determining a suitable allocation of the Client's assets among key asset classes. An agreed upon Investment Policy Statement ("IPS") is then signed by the Client which will determine the asset allocation model portfolio to be used. The model portfolio will then be implemented through investments in the Client's account in a portfolio of mutual funds and exchange-traded funds ("ETFs") that reflect the desired asset allocation. The mutual funds and ETFs used to implement the model portfolio will generally remain the same from model to model, only the proportions of each mutual fund or ETF will change, based on the stated investment objective, risk target, and other characteristics the portfolio is intended to achieve.
- Item 4: has also been revised with respect to Clients with legacy positions in the Traditional Program. Their portfolios utilize the same asset allocation models but currently consist of different individual securities, mutual funds, and ETFs. For these Clients, the FA will discuss the benefits and possibility of transitioning the Client's account to one of the model portfolios that is suitable for the Client, and a time-frame over which the transition would occur. Clients who do not wish to transition to the model portfolios will be managed as Legacy Accounts in the same fashion as in the past.
- Item 5: has been revised to provide additional information regarding 12b-1 Fees the FAs receive when they sell mutual funds to Clients in their separate capacity as registered representatives of a broker-dealer, and the conflict of interest that this involves. K-L representatives will also receive commission in their separate capacity as an insurance agent if Clients purchase insurance products outside of an Advisory account. Additionally, the revision provides additional information regarding the Traditional and Select Asset Management Programs.
- Item 5: has also been revised with respect to the description of the Management Fees charged Clients in the Traditional and Select Programs. The revised fee provisions each provide that K-L will charge a maximum Management Fee of 1.15% per annum, negotiable at the discretion of K-L, payable in advance, based on the value of the account on the last business day of March, June, September, and December, or other such time-period as agreed upon by K-L and the Client in writing.
- Item 8: has been revised to provide disclosure of risks related to leverage and inverse mutual funds and ETFs, and risk considerations related to investments in managed account programs utilizing model portfolios.

- Item 10: has been revised to provide additional information regarding the compensation received by K-L's FAs in their separate capacities as securities registered representatives on behalf of Mutual Securities, Inc. ("MSI"), a broker-dealer, and as insurance agents, and the conflict of interest that arises from their interest to increase their income. It also disclosed that in some cases, they will refer Clients to third parties, such as insurance agents, with whom they have arrangements to share any compensation arising from the sale of any product to the Client, which creates a conflict of interest. Additionally, the revision provides additional information regarding 12b-1 Fees the FAs receive when they sell mutual funds to Clients in their separate capacity as a registered representative of a broker-dealer, and the inherent conflict of interest.
- Item 13: has been revised with respect to how K-L's investment team reviews client accounts on a recurring and reactive basis. K-L's investment team utilizes a semi-annual review process to confirm client accounts are consistent with their respective Investment Policy Statements (IPS). Additionally, K-L's investment team will reactively review accounts based on (i) changes in client-specific circumstances (i.e. risk tolerance, liquidity needs, tax situation, preferences or constraints); (ii) the need to rebalance, triggered by portfolio deviation from target weights due to market price movements beyond a pre-determined threshold, or the need to reinvest cash from investment distributions (technology allows K-L to continuously monitor account deviation from targets and cash to invest); (iii) any investment team recommended changes in account holdings.
- Item 15: has been revised to disclose that from time-to-time certain of our FAs may serve as trustee for trusts established for close family members who are also Clients. Additionally, K-L's Clients provide standing letters of authorization ("SLOAs") to the qualified custodian of their accounts authorizing K-L to provide instructions on the time or amount of contributions from/distributions to a specifically designated recipient. As a result, K-L is deemed to have custody of those Clients' accounts.

## Item 3: Table of Contents

|   |    |
|---|----|
| <b>Item 2: Material Changes</b> .....   | 2  |
| <b>Item 3: Table of Contents</b> .....  | 4  |
| <b>Item 4: Advisory Business</b> .....  | 5  |
| General Information .....   | 5  |
| Asset Management Services .....   | 5  |
| Retirement Plan Services.....   | 7  |
| Financial Planning.....   | 8  |
| Consulting Services .....   | 8  |
| <b>Item 5: Fees and Compensation</b> .....  | 8  |
| Asset Management .....  | 9  |
| Retirement Plan Services.....   | 11 |
| Financial Planning.....   | 11 |
| Consulting Services .....   | 11 |
| Other Matters .....   | 12 |
| <b>Item 6: Performance-Based Fees and Side-By-Side Management</b> .....                                     | 12 |
| <b>Item 7: Types of Clients</b> .....   | 13 |
| <b>Item 8: Methods of Analysis, Investment Strategies, and Risk of Loss</b> .....                           | 13 |
| Risk of Loss.....   | 14 |
| <b>Item 9: Disciplinary Information</b> .....   | 16 |
| <b>Item 10: Other Financial Industry Activities and Affiliations</b> .....                                  | 16 |
| <b>Item 11: Code of Ethics, Participation or Interest in Client Transactions and Personal Trading</b> ..... | 18 |
| Code of Ethics and Personal Trading .....   | 18 |
| Participation or Interest in Client Transactions .....  | 19 |
| <b>Item 12: Brokerage Practices</b> .....   | 19 |
| Recommending Custodians and Brokers .....   | 19 |
| Best Execution .....  | 19 |
| Soft Dollars.....   | 22 |
| Lower Costs Available for Similar Services .....  | 22 |
| Directed Brokerage .....  | 23 |
| Order Aggregation.....  | 23 |
| Trade Errors .....  | 23 |
| <b>Item 13: Review of Accounts</b> .....  | 24 |
| Account Reviews.....  | 24 |
| Client Reports .....  | 24 |
| <b>Item 14: Client Referrals and Other Compensation</b> .....   | 24 |
| <b>Item 15: Custody</b> .....   | 25 |
| Trustee Services .....  | 25 |
| Third-Party Standing Letters of Authorization .....   | 25 |
| <b>Item 16: Investment Discretion</b> .....   | 25 |
| <b>Item 17: Voting Client Securities</b> .....  | 26 |
| <b>Item 18: Financial Information</b> .....   | 26 |

## Item 4: Advisory Business

### General Information

Kelman-Lazarov (“K-L”) places the Client and the Financial Advisor (“FA”) as partners in the center of every decision made as a firm. K-L develops products, services, and technologies to allow K-L FAs to provide the highest quality service to Clients.

Owners Ronald J. Lazarov and Martin S. Kelman have offered customized and confidential financial planning and investment advisory services since 1979 and 1981, respectively. K-L became registered as an investment adviser with the Securities and Exchange Commission effective December 7, 1993.

Please see the *Brochure Supplements* (Form ADV Part 2B) for more information on these principal owners and other individuals who formulate investment advice and have direct contact with Clients or have discretionary authority over Client accounts.

As of December 31, 2018, K-L managed \$377,785,323.56 on a discretionary basis and did not manage any assets on a non-discretionary basis.

### Asset Management Services

K-L provides its asset management services through the following programs:

- Kelman-Lazarov Traditional Asset Management Program
- Kelman-Lazarov Select Asset Management Program

#### *Traditional Asset Management Program*

Through the Traditional Asset Management Program, K-L offers Clients a fully discretionary managed account solution that begins with the FA getting to know the Client and listening to their needs and objectives. During the preliminary discussions, the FA will obtain information from the Client about the Client’s family and financial situation, the investment objective, tolerance for risk, investment time horizon, and other pertinent information (“Suitability Information”).

The FA will assist the Client to identify a suitable allocation of the Client’s assets across a variety of asset classes, including equities, fixed income, and cash, depending on the Client’s financial situation, investment objectives and tolerance for risk, among other factors. This dialogue with the Client will help the FA to identify the K-L model portfolio that reflects the appropriate asset classes, allocated in such proportions, most closely aligned with the Client’s objectives for income, growth, risk/volatility, and other key parameters. Clients may impose restrictions on investing in certain securities or types of securities in their account, but because of the limited number of Exchange-Traded Funds (“ETF”) and mutual funds available in each asset class, such restrictions may prevent a Client from investing in certain models managed by K-L.

K-L’s investment team will review a Client’s legacy positions to identify any that can be used to implement the existing asset classes of the model portfolio. The determination of legacy positions that may be used to implement the model is based on a number of factors, including the efficiency and cost of trading the positions through K-L’s existing broker-dealer relationships and platform, the research available to K-L and K-L’s familiarity with the issuer and the portfolio managers. Ultimately, however, the decision shall be at K-L’s sole discretion.

For Clients whose assets started in the Traditional Program prior to 2018 (“Legacy Accounts”), portfolios were invested in a model that included target weights and securities, with a variety of securities. Clients who do not wish to transition to the current model portfolio will be able to maintain a managed account at K-L. For those Clients the FA identifies that it may be beneficial to transition to one of the current models, the process will be discussed with the Client to determine if the Client agrees. If so, a timeframe over which the transition will occur will also be discussed with the Client.

### *Select Asset Management Program*

Generally, accounts with assets of less than \$250,000.00 participate in the Select Asset Management Program. The Select Program is a discretionary managed account program that also uses model portfolios and seeks to identify an appropriate allocation of the Client’s portfolio among the key asset classes after assessment of the Client’s financial circumstances and pertinent Suitability Information. To maintain a cost-effective program for these smaller accounts, K-L generally seeks ETFs and mutual funds that are available on a no transaction fee (“NTF”) basis. The lack of a transaction fee allows for cost-effective and efficient management of these accounts, although the mutual funds used carry higher expense ratios. K-L does not receive any portion of the expense ratios charged by the ETFs or mutual funds. The Client will be contacted periodically to determine whether to update the Client’s financial information previously provided and determine whether any changes should be made to the Client’s Investment Policy Statement (IPS), asset allocation, risk tolerance, or other factors pertaining to the continued suitability.

Please refer to the relevant prospectus (or if available, summary disclosure) for a complete description of all fees and charges associated with investing in each ETF or mutual fund.

### *Participating in the Traditional Program or Select Program*

To participate in the Traditional Program or the Select Program, the Client must enter into an Asset Management Services Agreement (“Contract”) describing K-L’s advisory services, the fees that will be charged, and other important terms of the relationship. The Client must enter into an agreement with a “qualified custodian” that will maintain the assets to be managed (the “Managed Assets”) in an account (the “Managed Account”) in the Client’s name. K-L utilizes and recommends the custodial and brokerage services of Charles Schwab & Co. (“Schwab”) to serve as qualified custodian for the Managed Account.

K-L will manage the Managed Account on a discretionary basis and will have the authority to direct the investment and re-investment of the Managed Assets without prior consultation with the Client. K-L may offer non-discretionary asset management services on a limited basis, at the discretion of the firm. Clients with non-discretionary arrangement must be contacted prior to the execution of any trade, which may result in a delay in executing the recommended trades. Clients with non-discretionary arrangements retain the responsibility for the final decision on all actions taken within the account.

Client or K-L may terminate the Contract at any time upon notification to the other party. Upon termination, any fees paid in advance will be prorated to the date of termination and any excess will be promptly refunded to the Client. Any fees due for services rendered or work performed for which a fee was not collected will be due and payable.

Clients should inform either their FA or K-L promptly of significant changes in their individual or family circumstances or financial situation, or in the investment goals or objectives, investment time horizon, tolerance for risk or volatility, or liquidity needs of the account so that the potential impact can be evaluated, and any appropriate changes can be made. Unless and until the Client notifies K-L in writing to designate a different

model portfolio for the Managed Account or notifies K-L of material changes in their Suitability Information or notifies K-L to impose reasonable restrictions on the investment of their Account, K-L will continue to manage the Managed Account according to the Suitability Information in K-L's records.

## Retirement Plan Services

K-L may provide retirement plan advisory services to Plans and Plan Fiduciaries on a discretionary or non-discretionary basis. The Employee Retirement Income Security Act of 1974 ("ERISA") sets forth rules under which Plan Fiduciaries may retain investment advisers for various types of services with respect to Plan assets. For certain services, K-L may be considered a fiduciary under ERISA. For example, to the extent that the Plan Fiduciaries retain K-L to act as an investment manager within the meaning of ERISA §3(21) or ERISA §3(38), K-L will provide non-discretionary or discretionary services, respectively.

### *Retirement Plan Consulting Services*

K-L may provide Retirement Plan Consulting Services to Plans and Plan Fiduciaries on a non-discretionary basis. The appropriate Plan Fiduciary designated in the Plan documents (e.g., the Plan sponsor or named fiduciary) will (i) make the decision to retain the firm; (ii) agree to the scope of the services that K-L will provide; and (iii) make the ultimate decision as to accepting any of the recommendations that K-L may provide.

Advice is limited to asset class and investment recommendations. K-L will provide Plan Fiduciaries with recommendations of investment options consistent with any Investment Policy Statement of the Plan. Plan Fiduciaries retain responsibility for the final determination of investment options and for compliance with ERISA section 404(c). K-L will assist in monitoring the plan's investment options and will make recommendations to maintain or remove and replace investment options. The Plan Fiduciaries are free to seek independent advice about the appropriateness of any recommendations made for the Plan. Retirement Plan Consulting Services may be offered individually or as part of a comprehensive suite of services.

### *Retirement Plan Management Services*

K-L may provide Retirement Plan Management Services to Plans and Plan Fiduciaries on a discretionary basis. When retained as an investment manager within the meaning of ERISA §3(38), K-L provides continuous and ongoing supervision over the designated retirement plan assets. K-L will actively monitor the designated retirement plan assets and provide ongoing management of the assets. When applicable, K-L will have discretionary authority to make all decisions to buy, sell, or hold securities, cash or other investments for the designated retirement plan assets in its sole discretion without first consulting the Plan Fiduciaries. K-L may also have the power and authority to carry out these decisions by giving instructions, on the Plan Fiduciary's behalf, to brokers and dealers and qualified custodian(s) of the Plan for the management of the designated retirement plan assets. K-L will monitor the investment options of the Plan and add or remove investment options for the Plan without prior consultation with the Plan Fiduciaries.

### *Education and Enrollment Services*

#### Participation Education

K-L will provide education services to Plan Participants about general investment principles and the investment alternatives available under the Plan. Education presentations will not take into account the individual circumstances of each Plan Participant.

## Participant Enrollment

K-L will assist with group enrollment meetings designed to increase Retirement Plan participation among employees and to improve the investment and financial understanding of employees.

## Financial Planning

Financial planning may consist of a number of services, depending on the Client's needs. The planning process evaluates a Client's current financial situation and proposes an action plan to help move towards setting and achieving the Client's financial goals. K-L has conversations with the Client and reviews documents, such as income tax returns and current investments, to determine a Client's current financial situation and long-term financial goals. Detailed information such as risk tolerance, time horizon, estate and retirement plans, trust agreements, wills and insurance may also be collected to help better complete a financial plan.

Next, the planning process identifies potential impediments to achieving the goals, as well as options for furthering the goals of the Client. A financial plan is developed with recommendations to help achieve the identified financial goals and is presented to the Client for consideration. Typically, K-L uses computer software as part of the financial planning process.

Clients may retain K-L to prepare a full financial plan, or to only give advice about a particular area of concern. Areas to be addressed may include, but are not limited to, retirement planning, funding of education, estate planning, insurance needs (disability, long-term care, and life insurance), and investment asset allocation. Clients do not have to act on the plan's recommendations, nor use K-L to implement any recommendations. Clients may, however, retain K-L to help implement the plan. If the Client chooses to purchase securities or insurance products through K-L, the firm will receive commissions or other compensation as a result of those investments. K-L may recommend seeking additional advice from an estate planning and/or tax professional as appropriate. K-L does not provide any tax or legal advice to Clients.

## Consulting Services

K-L may provide consulting services to Clients on specific financial matters, including, but not limited to, providing defined contribution allocation recommendations, distribution planning, and financial matters arising due to life-changing events. Where K-L provides general consulting services, K-L will work with the Client to prepare an appropriate summary of the specific project(s) to the extent necessary or advisable under the circumstances. The terms and conditions of the arrangement and the fees to be charged will be negotiated on a case-by-case basis. Advice given will be limited to the specific issues initially agreed upon.

If Clients choose to execute any transactions recommended by the FA, they are under no obligation to implement any given recommendations through K-L.

## Item 5: Fees and Compensation

### Asset Management

#### *Traditional Asset Management Program*

In this program, accounts pay a Management Fee to Kelman-Lazarov, Inc, and they pay the additional transaction-related costs, such as brokerage commissions, and fees for clearance, settlement and custodial



services in the account. K-L does not share in these transaction-related charges; however, please refer to the discussion under Recommendations by the Representative; Purchase from Other Firms and in Item 10 regarding 12b-1 Fees (and other compensation) for additional information. K-L Representatives will receive in their separate capacity as a registered representative of a broker-dealer if the Client purchases securities or insurance products outside of an account K-L manages.

Please see Item 12: Brokerage Practices for additional information on transaction charges for the execution of Client securities transactions.

The maximum Management Fee associated with this program, negotiable at the discretion of Kelman-Lazarov, Inc., is 1.15% per annum, payable quarterly in advance, based on the value of the account on the last business day of March, June, September, and December, or other such time-period as agreed upon by K-L and the Client.

Transaction charges are paid at the time the order is placed. Refer to the discussion below under *Transaction Charges; Additional Fees and Charges* for information about the transaction charges, as well as information about Miscellaneous Expenses that the Client's account will also incur.

### *Select Asset Management Program*

In this program, accounts pay a Management Fee to Kelman-Lazarov, Inc., and they pay the additional transaction-related costs, such as brokerage commissions, and fees for clearance, settlement and custodial services in the account. K-L does not share in these transaction-related charges; however, please refer to the discussion under Recommendations by the Representative; Purchase from Other Firms and in Item 10 regarding 12b-1 Fees (and other compensation) for additional information. K-L Representatives will receive in their separate capacity as a registered representative of a broker-dealer if the Client purchases securities or insurance products outside of an account K-L manages. Additionally, this program emphasizes the use of NTF mutual funds and ETFs, and the Client will not incur transaction charges with respect to any ETFs or mutual funds purchased on a no transaction fee basis.

Please see Item 12: Brokerage Practices for additional information on transaction charges for the execution of Client securities transactions.

The maximum Management Fee associated with this program, negotiable at the discretion of Kelman-Lazarov, Inc., is 1.15% per annum, payable quarterly in advance, based on the value of the account on the last business day of March, June, September, and December, or other such time-period as agreed upon by K-L and the Client.

In implementing the asset allocation models for accounts participating in the Select Asset Management Program, K-L general seeks ETFs and mutual funds available on a no transaction fee ("NTF") basis. Reduced transaction fees allow for cost-effective and efficient management of these accounts, although the ETFs and mutual funds may carry higher expense ratios.

For any ETFs or mutual funds that are not purchased on a no transaction fee basis, the transaction charge is paid at the time the order is placed. Refer to the discussion under Transaction Charges; Additional Fees and Charges for information about the transaction charges, as well as information about Miscellaneous Expense that the Client's account will also incur.

### *Payment of Management Fees*

Accounts in the same household may be aggregated to obtain a better fee discount or breakpoint. Deposits to and withdrawals from the account during the quarter are subject to proration over the quarter in determining fee

calculation. If management begins after the start of a quarter, fees will be prorated accordingly. Fees are normally debited directly from Client account(s) without prior notice to the client and without consent, unless other arrangements are made. All account assets, transactions, and fees will be shown on the monthly or quarterly account statements provided by Schwab.

### *Transaction Charges; Additional Fees and Charges*

The Management Fee payable to K-L is separate and distinct from the transaction charges, as well as the additional amounts that will be charged or assessed to the Client's account by a broker, custodian, exchange, fund company, or other financial intermediary, including without limitation, amounts for postage, handling, wire transfer fees, redemption fees, or other fees and expenses. Please see Item 12: Brokerage Practices for additional information on transaction costs charged for the execution of Client securities transactions.

The Management Fee is also separate and distinct from the internal fees and expenses charged by mutual funds, exchange-traded funds, or other investment pools to their shareholders (generally including a management fee and fund expenses, as described in each fund's prospectus or offering materials). Some "no-load" mutual fund shares may be required to be held for a minimum time-period, generally 90 days or less. If positions in such funds are liquidated or reduced prior to the end of the holding period, early redemption fees will apply. The Client should review all fees charged by funds, brokers, Custodian and others to fully understand the total amount of fees paid by the Client for investment and financial-related services.

### *Additional Fees and Expenses*

As shareholders of an ETF or mutual fund, Clients will bear, indirectly, the internal management fee and other fund expenses charged by ETFs and mutual funds to their shareholders (described in each fund's prospectus). Clients will also incur transaction charges and/or brokerage fees when purchasing or selling these shares, unless a mutual fund is purchased on a no transaction fee basis. The transaction charges are typically imposed by the broker-dealer that executes the transaction. K-L does not share in the brokerage fees/transaction charges for a Managed Account. To fully understand the total costs, Clients should review the fees charged by ETFs, mutual funds, K-L, and others. For information on K-L's brokerage practices, refer to Item 12: Brokerage Practices of this Brochure.

K-L uses NTF mutual funds for portfolios where, because of the number of transactions, or size of an account, it is particularly important to control the transaction costs, such as in the Select Program for accounts generally \$250,000.00 or less. However, as disclosed in the section about the Select Program, it is important for Clients to keep in mind that the internal expenses of many of the mutual funds offered on an NTF basis are significantly higher than other available share classes of the same funds offered with a transaction charge. The difference in expenses is only partially attributable to the 12b-1 Fees charged by the NTF Funds. The internal expenses of some NTF Funds are higher by an amount that exceeds the amount of their 12b-1 Fees, which is why it is important for Clients to be aware of all the internal expenses charged by the ETFs and mutual funds in their account. This information is available in the fund prospectus. 12b-1 fees are collected by Schwab and not collected nor paid to Kelman-Lazarov.

Either K-L or the Client may terminate their written agreement at any time, subject to any written notice requirements in the agreement. In the event of termination, any paid but unearned management fees will be promptly refunded to the Client based on the number of days that the account was managed, and any fees due to K-L from the Client will be invoiced or deducted from the Client's account prior to termination.

## *No Reduction or Offset of Advisory Fees*

K-L does not reduce or offset Advisory Fees by commissions, sales charges, or other sales-related compensation, including any 12b-1 Fees, or any rebates, credits or other compensation we receive from a Custodian, brokers, mutual fund companies, or insurance companies based on or as a result of a Client's purchase or sale of securities, insurance, or other investment products, or based on the value of a Client's account, free credit balance, margin account balance, or retirement account balances.

Unless expressly provided in the Advisory Agreement, no refund or other adjustment of a fee already paid will be made as a result of a decline in the value of the Account (whether due to market loss or withdrawals). However, in the event the Advisory Agreement is terminated within 5 days after execution, all management fees will be refunded.

## Retirement Plan Services

Fees for Retirement Plan Service engagements are individually negotiated based upon the scope of the engagement. Fees are based upon the value of the assets in the Plan being advised. All retirement plan service fees are negotiable and will be agreed to in writing by K-L and the Plan trustee.

## Financial Planning

K-L offers a variety of fee arrangements for Financial Planning services, commensurate with the service requested by the Client. Planning fees will generally be charged on an hourly basis, at a rate of \$300/hour, and will be based on the scope and complexity of the planning needs of the Client. Estimated fees will be stated in the Financial Planning Agreement; however, total fees may be higher or lower than estimated. The Client will be notified as soon as possible if K-L anticipates the fee will significantly exceed the initial estimate, and a new estimate will be provided at that time. However, this is still only an estimate and actual fees may differ. On occasion a flat rate may be quoted if K-L deems it appropriate. Fees are negotiable, agreed upon with the Client in advance, and due upon receipt of the invoice.

Depending on the anticipated length and the complexity of the circumstances, a retainer may be required in advance. In such instances, the Client will receive a monthly statement, listing the charges incurred and the balance of the retainer. Once the retainer is exhausted, K-L may require additional funds to be deposited. Where no retainer is required, fees are billed monthly in arrears.

Financial Planning Agreements terminate with completion of the project and delivery of services to the Client. Financial Planning Clients who wish to have their financial plans updated, or who wish to implement any asset management recommendations made in the plan, will be required to enter into a separate, written agreement for such services.

## Consulting Services

K-L does not have a standard fee schedule for consulting services but will discuss appropriate fees with Clients prior to rendering services. Some factors in determining appropriate fees are the time and complexity of the situation. The fee may be a flat fee or an hourly fee, typically \$300/hour, and paid in arrears. Fees are payable when invoiced.

## Other Matters

### *Recommendations by the Representative; Purchases from Other Firms*

The information in this section describes services that are offered outside of K-L's Advisory Services. As explained in Item 10, certain K-L FAs, including its management employees, are also broker-dealer registered representatives of Mutual Securities, Inc. ("MSI"), a broker-dealer, member FINRA/SIPC. Some FAs are also licensed insurance agents of an independent insurance brokerage and are appointed to sell life, health, annuity, and long-term care products by various insurance companies. As a registered representative of MSI and as an insurance agent, each FA may recommend that the Client purchase or sell securities or insurance products, reallocate existing investments, or take other steps to achieve their objectives in connection with the Retirement Plan Services, Financial Planning Services, or Consulting Services. If the Client elects to implement the recommendations of the FA to purchase any securities or insurance products (including mutual funds, variable products, or long-term care products), the FAs will receive compensation (including brokerage commissions, sales charges, 12b-1 Fees from the sale of mutual funds, and insurance commissions). Refer to the section Additional Fees and Expenses for further information regarding 12b-1 Fees.

Compensation earned by FAs in their capacities as registered representatives or insurance agents is separate and in addition to our Management Fees. Clients are advised that a conflict of interest exists because the FAs will have an incentive to recommend the securities and insurance products based on the compensation to be received (including brokerage commissions, sales charges, 12b-1 Fees from the sale of mutual funds, and insurance commissions), and in some cases, the prospect of encouraging cross-referrals to K-L of prospective advisory Clients, rather than based solely on the Client's needs. FAs providing investment advice to advisory Clients on behalf of K-L can select or recommend mutual fund investments in share classes that pay 12b-1 fees when the Clients are eligible to purchase share classes of the same funds that do not pay such fees and are less expensive. This presents a conflict of interest.

The Client is under no obligation, contractually or otherwise, to purchase securities or insurance products through one of our FAs, or otherwise implement or act upon the FA's recommendations. Clients can generally purchase similar investment products or services through other firms that are not affiliated with K-L. Refer to Item 10 for further information regarding conflicts of interests which exist. Clients may purchase mutual funds directly from mutual fund companies. The products may be available on a low or "no-load" basis. Although K-L recommends "load-waived" mutual fund share classes, many of the mutual funds K-L recommend carry 12b-1 Fees higher than a Client is able to obtain through direct purchases from a mutual fund company or from other financial services firms. If a Client chooses to purchase investments directly or through another intermediary, the Client will not receive the benefit of the services K-L provides in determining which investment products or services may be appropriate in view of the Client's financial situation, investment objectives, risk tolerance, and liquidity needs.

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

K-L does not have any performance-based fee arrangements. "Side-by-Side Management" refers to a situation in which the same firm manages accounts that are billed based on a percentage of assets under management and at the same time manages other accounts for which fees are assessed on a performance fee basis. Because K-L has no performance-based fee accounts, it has no side-by-side management.

## Item 7: Types of Clients

K-L serves individuals, pension and profit-sharing plans, corporations, trusts, estates, and charitable organizations. K-L may, at its discretion, make exceptions to the foregoing or negotiate special fee arrangements where K-L deems it appropriate under the circumstances.

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

K-L primarily invests using a strategic asset allocation. Strategic asset allocation involves determining an appropriate percentage to invest in a variety of asset classes. The Client's return objectives, risk tolerance, and investment constraints are used alongside long-term capital market assumptions to determine the appropriate asset class mix. The diversification afforded by appropriate strategic asset allocation helps balance the risks and rewards of investing.

The table below summarizes the analysis used to select diversified holdings:

| <b>Exchange-traded funds</b>            | <b>Open-Ended Mutual Funds</b>   | <b>Closed-End Mutual Funds</b>          |
|---|----------------------------------|---|
| Expense ratio                           | Expense ratio                    | Expense ratio                           |
| Investment process                      | Investment process               | Investment process                      |
| Tax efficiency (when applicable)        | Tax efficiency (when applicable) | Tax efficiency (when applicable)        |
| Style Drift                             | Style Drift                      | Style Drift                             |
| Trading costs (volume, bid/ask spreads) | Manager ownership                | Trading costs (volume, bid/ask spreads) |
|   |                                  | Historical discounts/premiums           |
|   |                                  | Amount and cost of leverage             |

When any of the above are designed to track an index, index replication methodology and tracking errors are additional analyses that are used.

Individual equity securities are analyzed by a variety of methods, using internal and external research. The primary method of analysis is fundamental analysis, which attempts to estimate the relative value of a security to an index of securities, its industry, or its own historical valuations. K-L uses internal research as well as research from a wide variety of external sources. Individual bonds are analyzed based on their relative valuations to similar bonds, in addition to their marketability.

## Risk of Loss

While K-L seeks to diversify the Client investment portfolios across various asset classes, consistent with the Client's IPS, in an effort to reduce risk of loss, all investment portfolios are subject to risks. Accordingly, there can be no assurance that Client investment portfolios will be able to fully meet their investment objectives and goals, or that investments will not lose money.

Below are descriptions of several of the principal risks that Client investment portfolios face:

### *Management Risk*

While K-L manages Client investment portfolios based on K-L's experience, research and proprietary methods, the value of Client investment portfolios will change daily based on the performance of the underlying securities in which they are invested. Accordingly, Client investment portfolios are subject to the risk that K-L allocates assets to asset classes that are adversely affected by unanticipated market movements, and the risk that K-L's specific investment choices could underperform their relevant indexes. Investment advice depends on each client's specific financial situation, therefore, advice regarding the same security or investment might be different.

### *Risk of Other Investment Pools*

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

### *Risk of Exchange-Traded Funds and Mutual Funds*

Exchange-traded funds ("ETFs") and mutual funds are professionally managed collective investment systems that pool money from many investors and invest in stocks, bonds, short-term money market instruments, other mutual funds, other securities, or any combination thereof. The fund will have a manager that trades the fund's investments in accordance with the fund's investment objective. While mutual funds and ETFs generally provide diversification, risks can be significantly increased if the fund is concentrated in a particular sector of the market, primarily invests in small cap or speculative companies, uses leverage (i.e., borrows money) to a significant degree, or concentrates in a particular type of securities (i.e., equities) rather than balancing the fund with different types of securities. ETFs differ from mutual funds since they can be bought and sold throughout the day like stocks and their price can fluctuate throughout the day. The returns on ETFs and mutual funds can be reduced by the costs to manage the funds. Also, while some mutual funds are "no-load" and charge no fee to buy into or sell out of the fund, other types of mutual funds do charge such fees which can also reduce returns. Mutual funds can also be "closed end" or "open end". So-called "open end" mutual funds continue to allow in new investors indefinitely whereas "closed end" funds have a fixed number of shares to sell which can limit their availability to new investors.

ETFs may have tracking error risk. For example, the ETF investment adviser may not be able to cause the ETF's performance to match that of the underlying index or other benchmark, which may negatively affect the ETF's performance. In addition, for leveraged and inverse ETFs that seek to track the performance of their underlying indices or benchmarks on a daily basis, mathematical compounding may prevent the ETF from

correlating with performance of its benchmark. In addition, an ETF may not have investment exposure to all the securities included in its underlying index, or its weighting of investment exposure to such securities may vary from that of the underlying index. Some ETFs may invest in securities or financial instruments that are not included in the underlying index, but which are expected to yield similar performance.

### *Risk of Leveraged Exchange-Traded Funds*

Leveraged ETFs use swaps and other financial derivatives to maintain their leveraged exposure and are typically created to “reset” every day, meaning they will be rebalanced daily and the instruments and contract that make up the ETF are going to change every day. This causes them to be inherently volatile instruments and create overnight risk when held to the next day. Leveraged ETFs are short-term vehicles and are not designed for long-term purchasing. Leveraged ETFs perform best when the market is in a low volatility, trending environment. This is because leveraged or inverse ETFs will magnify the returns of whatever the trend is. While leveraged ETFs may magnify investor returns, they may also magnify the potential for losses.

### *Risk of Management through “Model” Portfolios*

Managed Accounts participating in the Traditional Program or Select Program (except Legacy Accounts) are managed according to model portfolios developed by K-L. Although K-L generally does not follow an active “trading” strategy that involves significant turnover of the portfolio, over a short period of time, due to market, economic, or other reason, the strategy used to manage a model portfolio may experience above average portfolio turnover that could increase a Client’s trading costs and cause the Client to realize net gains or losses. K-L seeks to ensure that Client assets are managed in a manner consistent with their individual financial situations and investment objectives, and transactions effected pursuant to a model investment strategy at K-L will consider a Client’s tax ramifications, with the goal of incurring only reasonable tax consequences, if any.

### *Equity Market Risk*

K-L may invest portions of Client assets directly into equity investments, either stocks or pooled investment funds that invest in the stock market. As noted above, while pooled investments have diversified portfolios that may make them less risky than investments in individual securities, funds that invest in stocks and other equity securities are nevertheless subject to the risks of the stock market. These risks include, without limitation, the risk that stock values will decline due to daily fluctuations in the markets, and that stock values will decline over longer periods (e.g., bear markets) due to general market declines in the stock prices for all companies, regardless of any individual security’s prospects.

### *Fixed Income Risk*

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

### *Foreign Securities Risk*

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

### *Risk of Errors in Investment Decisions*

There is a risk that K-L's judgement about the attractiveness, relative value, or potential appreciation of a particular market sector or security, or about the timing of investment purchases or sales, may prove to be incorrect, resulting in losses to the Client's account. The success of K-L's strategy for an account or portfolio is subject to K-L's ability to continually analyze and select appropriate security investments and allocate and reallocate the investments consistent with the intended investment objectives and risk parameters. There is no assurance that K-L's efforts will be successful.

### *Risk of Reliance on Sources of Information*

K-L's method of analyzing investment opportunities assumes that the information K-L receives about funds, managers, companies, the characteristics and ratings of the securities issued, and other publicly-available sources of information utilized is accurate and unbiased. While K-L is alerted to indications that data may be incorrect or skewed, there is always a risk that K-L's analysis may be compromised by inaccurate or misleading information.

### *Management of Account Until Written Notice*

Unless and until the Client notifies K-L in writing to designate a different portfolio for their account, or notify K-L of material changes in their Suitability Information, K-L will continue to manage the account according to the Suitability Information on record. Clients should inform K-L promptly of significant changes in their individual or family circumstances or financial situation, or in the investment goals or objectives, investment time horizon, tolerance for risk, or liquidity needs of their account, so that appropriate changes can be made.

## **Item 9: Disciplinary Information**

Registered investment advisors are required to disclose all material facts regarding any legal or disciplinary events that would be material to a Client's evaluation of K-L or the integrity of K-L's management. Kelman-Lazarov, Inc. has no disciplinary events to report.

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

The information in this section describes services that are offered outside of the managed K-L account. As explained in Item 5, certain K-L FAs, including its management employees, are also registered representatives of Mutual Securities, Inc. ("MSI"), a broker-dealer, member FINRA/SIPC. Some FAs are also insurance agents of an independent insurance brokerage and are appointed by various life insurance companies and licensed to sell life, health, annuity, and long-term care products.



Separate from the role as FA for K-L, as a registered representative of MSI or as an insurance agent, the FAs may recommend that Clients purchase or sell securities or insurance products, reallocate existing investments, or take other steps to implement their objectives in connection with the Retirement Plan Services, Financial Planning Services, or Consulting Services. However, the FAs will not sell securities or insurance products to an advisory Client that will be managed by K-L in an advisory account. If the Client elects to implement the recommendations of the FA to purchase any securities or insurance products (including mutual funds, variable products, or long-term care or other insurance products), K-L supervised persons will receive compensation (including brokerage commissions, sales charges, 12b-1 Fees from the sale of mutual funds, or insurance commissions). Refer to the discussion in Item 5 under Additional Fees and Expenses for further information. In the case of mutual funds, asset-based compensation such as 12b-1 Fees will continue for as long as the Client owns the investment, as described in the prospectuses for those products; not all mutual funds pay 12b-1 Fees.

Compensation earned by FAs in their capacities as registered representatives or insurance agents is separate and in addition to K-L's Asset Management Fees. Clients are advised that a conflict of interest exists because some FAs will have an incentive to recommend the securities and insurance products based on the compensation to be received (including brokerage commissions, sales charges, 12b-1 Fees from the sale of mutual funds, and insurance commissions), and in some cases, the prospect of encouraging cross-referrals to K-L of prospective advisory Clients, rather than based solely on the Client's needs. FAs providing investment advice to advisory Clients on behalf of our firm can select or recommend mutual funds investments in share classes that pay 12b-1 fees when the Clients are eligible to purchase share classes of the same funds that do not pay such fees and are less expensive. This presents a conflict of interest.

Clients are under no obligation, contractually or otherwise, to purchase securities or insurance products through one of K-L's FAs, or otherwise implement or act upon the FA's recommendations. Clients can generally purchase similar investment products or services through other firms that are not affiliated with K-L. Clients may purchase mutual funds directly from mutual fund companies. The products may be available on a low or "no-load" basis. Although K-L recommends "load-waived" mutual fund share classes, many of the mutual funds K-L recommends carry 12b-1 Fees higher than a Client is able to obtain through direct purchases from a mutual fund company or from other financial services firms. If a Client chooses to purchase investments directly or through another intermediary, the Client will not receive the benefit of the services K-L provides in determining which investment products or services may be appropriate in view of the Client's financial situation, investment objectives, risk tolerance, and liquidity needs.

FAs may recommend other professionals with whom the FA has a personal relationship to implement financial planning, consulting, insurance or other recommendations. In certain cases, the FA will recommend the Client to a third-party professional with whom K-L has an arrangement to share in any compensation from the Client's purchase of any products or services (including life, health, or long-term care products), or where the FA is an agent of the issuing insurance company or product sponsors and K-L will receive a share of any compensation arising from Client purchases. Clients are advised that a conflict of interest exists in these circumstances because some FAs will have an incentive to recommend the third-party and its products and services based on the compensation to be received, and the prospect of encouraging cross-referrals of prospective advisory Clients to K-L, rather than solely based on the Client's needs.

Clients are under no obligation to act upon any of the recommendations made by the FA under a financial planning or consulting engagement or to engage the services of any such recommended professional. Clients retain the absolute right to decide whether or not to act on such recommendations, and if they choose to act on such recommendations, whether to purchase any products or services through the FA or MSI, or through another broker-dealer, insurance agency, or financial institution of their choosing, which may charge less (or more) for such products or services.

K-L has adopted the following steps to address the conflicts of interest in these situations:

- K-L discloses the existence of the conflict of interest that arises from the incentive some FAs have to earn more compensation from recommending the purchase of securities and insurance products over and above the Asset Management Fees K-L receives;
- K-L discloses to Clients that they have the right to decide whether or not to act on such recommendations, and if they choose to act on such recommendations, they have the right to purchase such products through MSI and the FAs, or through other broker-dealers, insurance agencies, or financial institutions of their choosing, which may charge less (or more) for such products;
- K-L requests Clients provide and update material information regarding their personal and financial situation, and the investment objective, tolerance for risk, liquidity needs, and investment time horizon for the advisory account that will be managed by K-L, and that K-L will conduct regular review of account investments;
- K-L requires that the FAs seek prior approval of outside employment activities, so any conflicts of interest are detected and ensure such conflicts are properly addressed;
- K-L periodically asks FAs to certify information regarding their disclosed outside employment activities; and
- K-L educates employees regarding the responsibilities of a fiduciary, including the need for having a reasonable and independent basis for the investment advice provided to Clients.

Rules of the Financial Industry Regulatory Authority (“FINRA”) require that a broker-dealer supervise the participation of its registered representatives in securities activities, even when the representative is working for an investment adviser. For our FAs who are also registered representatives of a broker-dealer (referred to as “Dual Representatives”), the broker-dealer they are associated with will review the Dual Representative’s Client accounts, records, transactions, statements, and other items containing Client personally identifiable information, and will make and retain books and records containing Client personal information, whether or not the Client maintains an account with the broker-dealer or its clearing firm. Client personal information will be provided to the current broker-dealer and each successor broker-dealer for supervisory purposes pursuant to FINRA rules, and the broker-dealer may retain the Client’s personal information in its books and records.

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

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

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

Next, the Code sets forth guidelines for professional standards for K-L’s associated persons. Under the Code’s Professional Standards, K-L expects its associated person to put the interests of its Clients first, ahead of personal interests. The Code of Ethics attempts to address specific conflicts of interest that have been identified or that could likely arise. K-L’s personnel are required to follow clear guidelines from the Code in areas such as

gifts and entertainment, outside business activities, prohibitions of insider trading, and adherence to applicable federal securities laws. In this regard, K-L associated persons are not to take inappropriate advantage of their positions in relation to K-L Clients.

Third, the Code sets forth policies and procedures to monitor and review the personal trading activities and annual holdings of associated persons. From time-to-time, K-L's associated persons may invest in the same securities recommended to Clients. Under its Code, K-L has adopted procedures designed to reduce or eliminate conflicts of interest that this could potentially cause. The Code's personal trading policies include procedures for limitations on personal securities transactions of associated persons, reporting and review of such trading and pre-clearance of certain types of personal trading activities. These policies are designed to discourage and prohibit personal trading that would disadvantage Clients. The Code also provides for disciplinary action as appropriate for violations.

## Participation or Interest in Client Transactions

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

Consistent with the foregoing, K-L maintains policies regarding participation in initial public offerings ("IPOs") and private placements in order to comply with applicable laws and avoid conflicts with Client transactions. If a K-L associated person wishes to participate in an IPO or invest in a private placement, they must submit a pre-clearance request and obtain the approval of the Chief Compliance Officer.

Finally, if associated persons trade with Client accounts (e.g., in a bundled or aggregated trade), and the trade is not filled in its entirety, the associated person's shares will be removed from the block, and the balance of shares will be allocated among Client accounts in accordance with K-L's written policy.

## Item 12: Brokerage Practices

### Recommending Custodians and Brokers

Client assets must be in an account maintained with a qualified custodian. K-L recommends, but does not require, Clients to use Schwab Advisor Services division of Charles Schwab & Co., Inc., member FINRA/SIPC ("Schwab"); however, K-L does require clients use a qualified custodian reasonably acceptable to K-L. Schwab is an independent broker-dealer not affiliated with K-L. Schwab is also referred to as "Custodian."

Custodian will hold Client assets in a brokerage account and buy and sell securities when K-L instructs. While K-L recommends Schwab as custodian and broker, Client will ultimately decide whether to accept this recommendation by entering into an account agreement directly with Schwab to open the custodial and brokerage account. K-L does not open the custodial and brokerage account for the Client. If a Client does not wish to place their assets with a Custodian, K-L will not manage the Client's account. Even though the Client's account is maintained at a particular Custodian, under certain circumstances K-L may still be able to use other brokers to execute trades for the Client's account, as described below.

### Best Execution

## *How Kelman-Lazarov Selects Brokers/Custodians*

As a fiduciary, K-L has an obligation to seek to obtain best execution of a Client's transactions, considering the circumstances of the particular transaction. K-L seeks Custodians who are brokers (or affiliated with a broker) and who will hold Client assets and execute transactions on terms that are overall most advantageous when compared to other available providers and their services. K-L considers a wide range of factors, including, among others, the following:

- Trade execution services and custodial services (generally without a separate fee for custody);
- Capability to execute, clear, and settle trades;
- Capabilities for transfers and payments to and from accounts (wire transfers, check requests, etc.);
- Breadth of available investment products (stocks, bonds, ETFs, mutual funds);
- Availability of investment research and tools that assist K-L in making investment decisions;
- Quality of services;
- Competitiveness of prices for its services (commission rates, margin interest rates, other fees, etc.) and willingness to negotiate them;
- Reputation, financial strength, and stability of the provider;
- Availability of other products and services that benefit K-L and its Clients, as discussed below.

K-L has evaluated the brokerage services offered by Schwab and considers it to have good execution capabilities and financial stability compared to comparable brokers that offer institutional advisory platforms for the types of securities and instruments that K-L uses in its strategies. While K-L believes the commissions and fees charged by Schwab are competitive, transactions may not always be executed at the lowest available commission rate.

## *Client Custody and Brokerage Costs*

Schwab generally does not charge Clients separately for custody services but is compensated by charging Client accounts commissions or other fees on trades that the Custodian executes or that settle into the account maintained with Schwab. Schwab may also charge the Client a flat dollar amount as a "prime broker" or "trade away" fee for each trade K-L has executed by a different broker-dealer but where the securities are bought, or the sales proceeds are deposited (settled) into the Client's account with Schwab. These fees are in addition to the commissions or other compensation the Client pays the executing broker-dealer. Because of this, in order to minimize Client trading costs, K-L has Schwab execute all or virtually all trades for the Client's account.

## *Products and Services Available to Kelman-Lazarov from Schwab.*

Schwab Advisor Services™ (formerly called Schwab Institutional®) is Schwab's line of business that serves independent investment advisory firms like K-L. Through this program, Schwab offers various services not generally available to retail investors, including custody of securities, trade execution, clearance and settlement, and access to mutual funds otherwise only available to institutional investors. Schwab also makes available various support services. Some of those services help K-L manage or administer K-L Client accounts, while others help manage and grow K-L's business. Schwab's support services are generally available on an unsolicited basis (K-L does not have to request them) and at no charge to K-L as long as a minimum amount of Client assets in accounts is kept at Schwab. For example, Schwab's support services are generally available at no charge to K-L as long as a total of at least \$10 million in K-L Client assets are in accounts at Schwab. The following is a more detailed description of Schwab's support services:

## Services that Benefit Clients

Schwab's institutional brokerage services include access to a broad range of investment products, execution of securities transactions, and custody of Client assets. The investment products available through Schwab include some to which K-L might not otherwise have access or that would require a significantly higher minimum initial investment, and access to mutual funds with no transaction charges and to certain institutional money managers which may result in lower Client expenses. These services generally benefit Clients and their accounts.

## Services that May Not Directly Benefit Clients

Some of the useful benefits and services made available by Schwab through its institutional program may benefit K-L but may not benefit all or any Client accounts. These products and services assist K-L in managing and administering Client accounts. They include investment research, both Schwab's own and that of third parties. K-L may use this research to service all or a substantial number of Client accounts, including accounts not maintained at Schwab. In addition to investment research, Schwab also makes available software and other technology that:

- Provides access to Client account data (such as duplicate trade confirmations and account statements);
- Facilitates trade execution and allocates aggregated trade orders for multiple Client accounts;
- Provides pricing and other market data;
- Facilitates payment of K-L fees from Client accounts; and
- Assists with back-office functions, recordkeeping and Client reporting.

## Services that Generally Benefit Primarily Kelman-Lazarov

Schwab also offers other services intended to help K-L manage and further develop its business enterprise. Although the following services are important to helping K-L maintain and improve the overall services provided to Clients as a whole, any particular Client may tend to benefit only indirectly (or not at all) from any particular service, whereas K-L will benefit directly from the services it receives, such as:

- Educational conferences and events;
- Technology, compliance, marketing, legal, and business consulting;
- Publications and conferences on practice management and business succession; and
- Access to employee benefits providers, human capital consultants and insurance providers.

Schwab may provide some of these services directly, or in other cases, will arrange for third-party vendors to provide the services to K-L. Schwab may also discount or waive fees for some of these services or pay all or a part of the third-party's fees. Schwab may also provide K-L with other benefits such as occasional business entertainment of K-L personnel.

## Brokerage Services that Do Not Benefit Specific Accounts

K-L does not attempt to put a dollar value on the useful benefits and services each account receives from Schwab, nor does it attempt to allocate or use the economic benefits and services received from Schwab for the benefit of the accounts maintained with Schwab or attempt to use any particular item to service all accounts. Some of the products and services made available by Schwab may benefit K-L but may not benefit all or any K-L Client accounts. The benefits and services K-L receives from Schwab are used to help K-L fulfill its overall Client obligations.

## Kelman-Lazarov Interest in Schwab's Services

The availability of these services from Schwab benefits K-L because it does not have to produce or purchase them. These services are not contingent upon K-L committing any specific amount of business to Schwab in trading commissions or assets in custody. However, if K-L did not recommend Schwab's services, it is unlikely that we would continue to receive Schwab's Services. K-L has an incentive to recommend Clients maintain accounts with Schwab. This is based on an interest in continuing to receive Schwab's services that benefit K-L's business rather than based on the Client's interest in receiving the best value in custody services and the most favorable execution of transactions. This is a conflict of interest. K-L believes, however, that the selection of Schwab as custodian and broker is in the best interest of the Clients. K-L's selection is primarily supported by the scope, quality, and price of Schwab's services (see above, "*How Kelman-Lazarov Selects Brokers/Custodians*") and not Schwab services that benefit only K-L.

## Soft Dollars

K-L generally does not engage in formal soft dollar arrangements where K-L commits to direct portfolio brokerage commissions to a broker-dealer in return for specified brokerage or research services that K-L may use in making investment decisions for its Clients. However, K-L does receive the useful benefits and services described above from Schwab.

Section 28(e) of the Securities Exchange Act of 1934 provides that an adviser does not breach fiduciary duties under state or federal law solely by causing its Clients' accounts to pay brokerage commissions in excess of the amount another broker-dealer would have charged if the adviser determines in good faith that the commissions are reasonable in relation to the value of brokerage and research services received. It is K-L's policy to operate within the safe harbor of Section 28(e).

These services are not contingent upon K-L committing any specific amount of business to Schwab in trading commissions or assets in custody. K-L has an incentive to recommend Clients maintain accounts with Schwab. This is based on an interest in continuing to receive Schwab's services that benefit K-L's business rather than based on the Client's interest in receiving the best value in custody services and the most favorable execution of transactions. This is a conflict of interest. K-L believes, however, that the selection of Schwab as custodian and broker is in the best interest of the Clients. K-L's selection is primarily supported by the scope, quality, and price of Schwab's services (see above, "*How Kelman-Lazarov Selects Brokers/Custodians*") and not Schwab services that benefit only K-L.

Although K-L strives to address this conflict in a manner consistent with a fiduciary duty, and this conflict is disclosed to the Clients, the firm's judgement may be affected such that these efforts may not be entirely successful. To help mitigate this conflict, procedures have been adopted to periodically analyze the services and programs provided by or available through K-L's brokers, to evaluate the usefulness in relation to the costs of the services, and to assess the overall quality of the services.

## Lower Costs Available for Similar Services

K-L offers no assurance that the commissions or investment expenses Clients will incur by using Schwab as their custodian and broker will be as low as the commissions or investment expenses charged by other firms for similar services. It is likely that lower costs may be available for similar services from other advisers, brokers or custodians, and by paying lower costs, Clients could improve their long-term performance.

## Directed Brokerage

K-L does not recommend, request, or require “directed brokerage” instructions in which a Client directs K-L to use a particular broker (other than Schwab) to execute all brokerage orders, even if a more favorable execution could be obtained elsewhere. Because of the compliance and regulatory requirements applicable to registered representatives of Schwab, K-L will not usually accept directions to place brokerage with brokers other than Schwab, except in unusual circumstances and with Schwab’s prior approval.

When a Client directs the use of a particular broker-dealer (and K-L agrees to such direction), K-L will not aggregate the Client’s orders with the orders of Clients at other brokers. Orders for these accounts will not be placed until after orders are placed for accounts that have not directed the use of a particular broker. As a result, the Client will not receive the benefit of reduced transaction costs or better prices that may result from aggregation of Client orders. Further, when K-L is directed to use a particular broker-dealer, K-L will not have the authority to negotiate commissions, obtain volume discounts, or seek price improvements from other broker-dealers.

Consequently, Clients should understand that the direction to place orders with a broker-dealer may result in the broker not achieving the most favorable execution of the Client’s transactions. This practice may cost the Client more than if K-L has discretion to select another broker-dealer. A disparity may arise such that Clients who direct brokerage may pay higher overall transaction costs and receive less favorable prices than Clients who do not direct brokerage.

## Order Aggregation

K-L may aggregate orders for the purchase or sale of securities on behalf of the accounts it manages. Proprietary accounts of K-L or its supervised persons (employees) may participate in block orders on the same basis as Clients. The ability to have orders aggregated into a “block order” with other Clients can offer economic benefits, including the potential for volume discounts on their orders, timelier execution, a reduction of adverse market effects that can occur from separate, competing orders, and mutual sharing of transaction costs. For accounts that purchase individual securities, such as stocks or bonds, the broker may be able to negotiate price improvements for block orders. For mutual fund orders, if no economic benefit is received from the use of block orders, they will not be used.

Typically, partial fills will be allocated among accounts in proportion to the total orders participating in the block, unless K-L determines that another method of allocation is equitable (such as an alphabetical rotation, rotation based on the Clients of a particular Representative, or other method). Exceptions may be granted or allowed due to varying cash availability, divergent investment objectives, existing concentrations or weightings in the security or asset class, tax considerations, performance relative to a benchmark, performance relative to other accounts in the same strategy or portfolio, or a desire to avoid “odd lots” (an amount of a security that is less than the normal unit of trading for that security).

## Trade Errors

It is K-L’s policy for Clients to be made whole following a trade error. However, the custodian of the Client’s account has adopted separate policies that differ from K-L’s and which will control in virtually all situations. Schwab’s trade error policy provides that if correction of a trade error results in an investment gain, the gain will remain in the Client’s account unless (i) the same error involved other Client account(s) that should have received the gain, (ii) it is not permissible for the Client to retain the gain, or (iii) Schwab confers with the Client and the Client decides to forego the gain. If the gain does not remain in the Client’s account and Schwab is the custodian,

Schwab will donate the amount of any gain of \$100 and over to charity. Losses greater than \$100 will be paid by K-L, as the Client's adviser.

In all cases of gains or losses under \$100, Schwab will pay the loss and retain any gain (if such gain is not retained in the Client account) to minimize and offset its administrative time and expense. Generally, if related trade errors result in both gains and losses in the Client account, they may be netted.

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

### **Account Reviews**

K-L reviews accounts on a proactive calendar basis and on a reactive basis. The investment team, utilizing a random assignment, will proactively review all accounts at least semi-annually for consistency with the client's Investment Policy Statement (IPS). The investment team will also review accounts on a reactive basis due to a number of scenarios. These may include the following:

1. Changes in client-specific circumstances (i.e., risk tolerance, liquidity needs, tax situation, preferences or constraints);
2. The need to rebalance, triggered by portfolio deviation from target weights due to market price movements beyond a pre-determined threshold, or the need to reinvest cash from investment distributions (technology allows K-L to continuously monitor account deviation from targets and cash to invest);
3. Investment team recommended changes in account holdings.

Generally, Retirement Consulting, Financial Planning, and Consulting Services do not include reviews, unless specifically included in the Client's Advisory Agreement, or upon request of the Client.

### **Client Reports**

Asset Management accounts will receive monthly or quarterly account statements and confirmations from their Custodian. Unless specifically agreed in the Client's Advisory Agreement, K-L will not provide a written report or electronic or online financial plan in connection with the Retirement Consulting, Financial Planning, and Consulting Services. Please refer to Item 15 for further information about account statements.

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

As noted above, K-L may receive an economic benefit from Schwab in the form of support and services it makes available to K-L and other independent investment advisors that have their Clients maintain accounts at Schwab. These products and services, how they benefit our firm, and the related conflicts of interest are described in Item 12: Brokerage Practices. The availability of Schwab's products and services to K-L is based solely on our participation in the custodian's programs and not in the provision of any particular investment advice, such as buying particular securities for our Clients.

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



as well as deliver a Solicitor's Disclosure Statement and a copy of this K-L Brochure (Form ADV Part 2A) to prospective Clients. At this time, K-L does not have a Solicitor arrangement with a third-party.

## Item 15: Custody

K-L is deemed to have "custody" of the assets of Client accounts as a result of its ability to deduct fees from the Client's account, as authorized by the Client's Advisory Agreement. Additionally, standing authorization for third-party checks, wires, and ACH transfers, which are another form of custody, are permitted. Assets will be held in the name of the Client by Schwab. Please refer to Item 5 for information regarding deduction of Advisory Fees from Client accounts.

Schwab will deliver account statements directly to the Client on at least a quarterly basis; K-L does not provide statements to Clients. K-L urges Clients to review the account statements from Schwab and compare them to information received from K-L to identify any discrepancies. Report any issues promptly to K-L using the contact information provided on the front of this Brochure.

## Trustee Services

K-L associated persons may serve as trustees to certain accounts for which K-L also provides investment advisory services. In all cases, the persons associated with K-L have been appointed trustee as a result of a family or personal relationship with the trust grantor and/or beneficiary and not as a result of employment with K-L. Therefore, K-L is not deemed to have custody over the advisory accounts for which persons associated with the firm serve as trustee.

## Third-Party Standing Letters of Authorization

Clients may provide the qualified custodian of their account a written instruction authorizing K-L to direct transfers to/from a specified third-party, either on a set schedule or from time-to-time, subject to certain regulatory requirements pursuant to the Custody Rule; as a result, K-L is deemed to have custody of these Client accounts.

## Item 16: Investment Discretion

Clients will generally be asked to grant K-L discretion in the management of the Client's account. Such discretionary authorization is specified in the Asset Management Agreement executed by the Client and is limited to the selection and the amount of securities to be purchased or sold in the Managed Account and the timing of any transactions therein, as well as the broker or dealer to be used for each Client securities transaction, without receiving prior consent from the Client for each transaction.

K-L may offer non-discretionary asset management services on a limited basis, at the discretion of the firm. Clients with non-discretionary arrangements must be contacted prior to the execution of any trade. Clients with non-discretionary arrangements retain the responsibility for the final decision on all actions taken within the account.

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

As a policy and in accordance with its Client Asset Management Agreement, K-L does not have, and will not accept, authority to vote Client securities. Clients will receive their proxies or other solicitations directly from the custodian. Clients may contact K-L at (855) 273-6719 with questions about a particular proxy or solicitation. However, K-L does not typically research nor develop a firm opinion with regard to a particular proxy or solicitation.

If you represent an employee benefit plan subject to the Employee Retirement Income Security Act of 1974, (“ERISA”) as amended or Section 4975 of the Internal Revenue Code (“ERISA Client”), please note that K-L is expressly precluded from taking any action or rendering any advice with respect to the voting of proxies solicited by or with respect to issuers of securities held in an ERISA Plan’s Account.

Similarly, K-L does not advise or exercise rights, make elections, or take other actions with respect to legal proceedings involving companies whose securities are or were held for a Client’s account, such as asserting claims or voting in bankruptcy or reorganization proceedings, or filing “proofs of claim” in class action litigation. Although the firm does not advise Clients regarding such matters, Clients may contact K-L at (855) 273-6719 with questions or information about forwarding materials to the Client or their representative.

## **Item 18: Financial Information**

K-L does not require nor solicit prepayment of more than \$1,200 in fees per Client, six months or more in advance, and has no financial condition that is reasonably likely to impair its ability to meet contractual commitments to Clients. Therefore, no disclosure is required for this item.