

Part 2A of Form ADV: Firm Brochure

This brochure provides information about the qualifications and business practices of AQS Asset Management, L.L.C. If you have any questions about the contents of this brochure, please contact us at 512 314 0720 or e-mail byron.white@aqslc.com. The information in this brochure has not been approved or verified by the United States Securities and Exchange Commission or by any state securities authority.

Additional information about AQS Asset Management, L.L.C. also is available on the SEC's website at www.adviserinfo.sec.gov.

Being a "registered investment adviser" or describing ourselves as being "registered," does not imply a certain level of skill or training.

Identification and material changes from our last annual update

Item 1 Identification

AQS Asset Management, L.L.C.
811 Barton Springs Rd, Suite 800
Austin, TX 78750
www.aqslc.com

Date of this brochure: March 1, 2011

Item 2 Material Changes

There were no material changes from our last annual update dated February 24, 2010.

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Item 4 Advisory Business

- A. AQS Asset Management L.L.C. is a Texas Limited Liability Company privately owned. Our order granting registration with the Securities and Exchange Commission occurred on May 18, 2004. The principal shareholders are Byron White (50% ownership) and John Larry White (50% ownership).
- B. We offer investment advisory services to insurance companies exclusively on an individual client basis. These services include asset allocation, portfolio monitoring, asset liability management and financial analysis for fixed income portfolios.
- C. Our firm tailors our advisory services to the individual needs of client Insurance Companies. We use proprietary asset liability management software to obtain the right mix of assets with liabilities for the given client.
- D. Our firm does not participate in any wrap fee programs.
- E. Our firm manages client assets on a discretionary basis \$1,098,985,000 as of 12/31/2010.

Item 5 Fees and Compensation

- A. Our fees are based on an agreed upon percentage of the market value of assets managed each month. This market value is determined by a 3rd party custodian hired by our clients. These fee percentages are negotiable; however, our maximum fee is 20 basis (0.2%) of the market value under management.
- B. We do not deduct fees from client assets. We bill clients for market values established by the custodian for the month end 2 months prior.
- C. We do not charge any other fees for client advisory services. We do not take part in custodial fees or transaction fees in the buying and selling of securities.
- D. Clients are not allowed to pre-pay fees.
- E. No principal or any supervised persons of AQS Asset Management L.L.C. accepts compensation for the sale of securities or other investment products.

Item 6 Performance-based Fees and Side-By-Side Management

No principal or any supervised persons of AQS Asset Management L.L.C. accepts performance-based fees (Performance-based fees are defined as fees based on a share of capital gains on or capital appreciation of the assets of a client.)

Item 7 Types of Clients

AQS Asset Management L.L.C. deals exclusively with insurance companies.

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

- A. Our primary investment strategy is to asset liability match client portfolios with the individual insurance company liabilities. Investing in fixed-income securities involves risk of loss either through market moves (interest rate risk), credit risk (defaults) and/or asset liability risk.
- B. In implementing our primary strategy of asset liability management there is the possibility of loss due to modeling error of assets or liabilities, abnormal market circumstance affecting client liabilities or portfolio assets. Our strategy relies extensively on the input of third parties including but not limited to actuaries, accountants, data services and information providers.
- C. Our primary security class, fixed-income, involves the following material risks:

credit risk (default), which we attempt to mitigate through diversity of holdings and;

interest rate risk, which we attempt to mitigate with proper asset liability matching.

Item 9 Disciplinary Information

There are no legal or disciplinary events that are material to a client's or prospective client's evaluation of our advisory business or the integrity of our management.

- A. No criminal or civil actions in a domestic, foreign or military court of competent jurisdiction in which our firm or a management person:
 - 1. was convicted of, or plead guilty or nolo contendere ("no contest") to (a) felony; (b) a misdemeanor that involved investments or an investment-related business, fraud, false statements or omissions, wrongful taking of property, bribery, perjury, forgery, counterfeiting, or extortion; or (c) a conspiracy to commit any of these offenses;

2. is the named subject of a pending criminal proceedings that involves an investment-related business, fraud, false statements or omissions, wrongful taking of property, bribery, perjury, forgery, counterfeiting, extortion or a conspiracy to commit any of these offenses;
 3. was found to have been involved in a violation of an investment-related statute or regulation; or
 4. was the subject of any order, judgment, or decree permanently or temporarily enjoining, or otherwise limiting, your firm or a management person from engaging in any investment-related activity, or from violating any investment-related statute, rule or order.
- B. There have been no administrative proceeding before the SEC, any other federal regulatory agency, any state regulatory agency, or any foreign financial regulatory authority in which our firm or a management person
1. was found to have caused an investment-related business to lose its authorization to do business; or
 2. was found to have been involved in a violation of an investment-related statute or regulation and was the subject of an order by the agency or authority
 - (a) denying, suspending, or revoking the authorization of our firm or a management person to act in an investment-related business.
 - (b) Barring or suspending, our firm's or a management person's association with an investment-related business.
 - (c) Otherwise significantly limiting our firm's or a management person's investment-related activities; or
 - (d) Imposing a civil money penalty of more than \$2,500 on our firm or a management person.
- C. There are no self-regulatory organization (SRO) proceeding in which our firm or a management person
1. was found to have caused an investment-related business to lose its authorization to do business; or
 2. was found to have been involved in a violation of the SRO's rules and was; (i) barred or suspended from membership or from association with other members, or was expelled from membership;
 - (ii) otherwise significantly limited from investment-related activities; or (iii) fined more than \$2,500.

Item 10 Other Financial Industry Activities and Affiliations

- A. No management persons are registered, or have an application pending to register, as a broker-dealer or a registered representative of a broker-dealer.
- B. No management persons are registered, or have an application pending to register, as a futures commission merchant, commodity pool operator, a commodity trading advisor, or an associated person of the foregoing entities.
- C. Our firm has no relationships or arrangements that are material to our advisory business or to our clients with any related person listed below:
 - 1. broker-dealer, municipal securities dealer, or government securities dealer or broker.
 - 2. investment company or other pooled investment vehicle (including a mutual fund, closed-end investment company, unit investment trust, private investment company or “hedge fund,” and offshore fund)
 - 3. other investment adviser or financial planner
 - 4. futures commission merchant, commodity pool operator, or commodity trading advisor
 - 5. banking or thrift institution
 - 6. accountant or accounting firm
 - 7. lawyer or law firm
 - 8. insurance company or agency
 - 9. pension consultant
 - 10. real estate broker or dealer
 - 11. sponsor or syndicator of limited partnerships.
- D. our firm does not recommend or select other investment advisers for our clients.

Item 11 Code of Ethics, Client Transactions and Personal Trading

- A. As an SEC-registered adviser, our firm follows the CFA Institute Code of Ethics and Standards of Professional Conduct. A copy of this code of ethics is available to any client or prospective client upon request.
- B. Our firm does not buy or sell for client accounts, securities in which our firm or a related person has a material financial interest.
- C. Our firm or a related person invests in the same securities (fixed-income securities for example) that our firm or a related person recommends to clients. Sometimes this practice can cause conflicts of interest. Our firm and its management and supervised employees are made aware of all securities that are being recommended to be bought and are transmitted to all management and employees via e-mail of trade logs. Our compliance officer

routinely checks management and employee trading activity to assure this compliance.

- D. Our firm or a related person does not recommend securities to clients, nor do we purchase or sell for their account, securities in which our firm or related persons intend to buy or sell at about the same time.

Item 12 Brokerage Practices

- A. Our firm does not recommend broker-dealers for client transactions or determine the reasonableness of their compensation.

1. Research and Other Soft Dollar Benefits. Our firm does not receive research or other products or services other than execution from a broker-dealer or a third party in connection with client securities transactions.

- a. Our firm does not use client brokerage commissions (or markups or markdowns) to obtain research or other products or services.
- b. Our firm does not have an incentive to select or recommend a broker-dealer because products or services are not accepted.
- c. Our firm does not cause clients to pay commissions (or markups or markdowns) higher than those charged by other broker-dealers because soft dollar benefits (known as paying-up) are not accepted.
- d. Our firm does not use soft dollar benefits to service our clients' accounts because soft dollar benefits are not solicited.
- e. Our firm or related person accepted no products or services with client brokerage commissions (or markups or markdowns) within our last fiscal year.
- f. Our firm does not direct client transactions to a particular broker-dealer in return for soft dollar benefits.

2. Brokerage for Client Referrals. Our firm or a related person does not receive client referrals from a broker-dealer or third party.

- a. Our firm has no incentive to select or recommend a broker-dealer based on our interest in receiving client referrals, rather, our concern is about our client's receiving most favorable execution.
- b. Our firm does not direct client transactions to a particular broker-dealer in return for client referrals.

3. Directed Brokerage.

- a. Our firm does not recommend, request or require that a client execute transactions through a specified broker-dealer. Not all advisers require their clients to use a particular brokerage. Our firm has no affiliates or any other economic relationship that creates a material conflict of interest. Advisers that direct clients to a specific brokerage may be unable to achieve most favorable execution of client transactions, possibly costing clients more money.
 - b. We do permit clients to direct brokerage trades to specific broker-dealers. We discourage this practice and explain to them that this may cause the client to pay more money as the execution of the trade may not be the best possible. Also the specific broker-dealer does not have the best execution this does not allow us to aggregate trades with other clients.
- B. Our firm is from time to time involved in the aggregate purchase or sale of securities for various clients. If we determine that the sale or purchase of securities is appropriate for a client we will aggregate the sale or purchase based on percentage market value of each individual client portfolio relative to the entire amount of portfolios managed. Not aggregating trades can result in higher transaction.

Item 13 Review of Accounts

- A. Our firm periodically reviews clients accounts. The frequency and nature of the review depends on the client's needs, but we attempt to review at least quarterly, if not more frequently. The Investment Counselor who conducts the review is John Larry White or Byron White.
- B. Our firm reminds the clients that periodic review of the portfolio is important in order to adjust the sale of insurance products to match the current market yields and to adjust our asset liability strategy.
- C. Our firm provides electronic presentations (usually on a monthly basis), via e-mail and other electronic means, which indicates the current portfolio yield, modified duration, effective duration, the securities bought during the last presentation and the current market yields. And any other pertinent information.

Item 14 Client Referrals and Other Compensation

- A. There is no one providing an economic benefit to our firm for providing investment advice or other advisory services to our clients.
- B. Our firm does not compensate any person for client referrals.

Item 15 Custody

Our firm does not take custody of client funds or securities. Clients will continue to receive account statements from the broker-dealer, bank or other qualified custodian.

Item 16 Investment Discretion

Our firm does accept discretionary authority to input trades into securities accounts on behalf of clients. Our firm follows procedures provided by clients and their custodians that allow for trading access only.

Item 17 Voting Client Securities

- A. Our firm does accept authority to vote client securities and receives notification along with the client from the custodian. We recommend how to vote the shares to the clients and allow them to direct the voting after disclosing the pros and cons of that vote.
- B. Clients receive proxies along with our firm and we discuss with the client how the voting should take place and vote as they wish. All voting records are retained at the firm and clients have access to voting information from the custodian.

Item 18 Financial Information

- A. Our firm doesn't require or solicit prepayment of more than \$1,200 in fees per client, six months or more in advance.
- B. Our firm does not foresee any financial condition that is reasonably likely to impair our ability to meet contractual commitments to clients.
- C. Our firm has not been subject of a bankruptcy petition at any time during the past ten years.

Item 19 Requirements for State Registered Advisers

- A. John Larry White received a Bachelor of Science in Mechanical Engineering from Rice University. Mr. White has over 25 years experience with fixed

income investment securities and was the co-founder of AQS Asset Management L.L.C. in May 2004.

Byron White received a Bachelor of Arts in Mathematics at the University of Texas at Austin, is a Certified Public Accountant (Texas) and has received the Chartered Financial Analyst designation from the CFA Institute. Mr. White has over 18 years experience with fixed income securities and was the co-founder of AQS Asset Management L.L.C in May 2004.

- B. Our firm supplies consulting and modeling of insurance portfolios for cash flow testing purposes. The approximate amount of time spent on this is 5%.
- C. Our firm or a supervised person is not compensated for advisory services with performance-based fees. Performance-based compensation may create an incentive for the adviser to recommend an investment that may carry a higher degree of risk to the client.
- D. Our firm or a management person has never been involved in one of the events listed below:
 - 1. An award or otherwise being found liable in an arbitration claim alleging damages in excess of \$2,500, involving any of the following:
 - (a) an investment or an investment-related business or activity;
 - (b) fraud, false statement(s), or omissions;
 - (c) theft, embezzlement, or other wrongful taking of property;
 - (d) bribery, forgery, counterfeiting, or extortion; or
 - (e) dishonest, unfair, or unethical practices.
 - 2. An award or otherwise being found liable in a civil, self-regulatory organization, or administrative proceeding involving any of the following:
 - (a) an investment or an investment-related business or activity;
 - (b) fraud, false statement(s), or omissions;
 - (c) theft, embezzlement, or other wrongful taking of property;
 - (d) bribery, forgery, counterfeiting, or extortion; or
 - (e) dishonest, unfair, or unethical practices.
- E. Our firm or any of our management persons has no relationship or arrangement with any issuer of securities that is not listed in item 10.C. of Part 2A.