

Prudent Man Investment Management, Inc.

1601 Arapahoe Street
13th Floor
Denver, CO 80202
(303) 436-1577
www.prudentman.com
March 31, 2012

This Brochure provides information about the qualifications and business practices of Prudent Man Investment Management, Inc. If you have any questions about the contents of this Brochure, please contact us at (303) 436-1577. 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.

Prudent Man Investment Management, Inc. is a registered investment adviser. Registration of an Investment Adviser does not imply any level of skill or training. The oral and written communications of an Adviser provide you with information about which you determine to hire or retain an Adviser.

Additional information about Prudent Man Investment Management, Inc. also is available on the SEC's website at www.adviserinfo.sec.gov.

On July 28, 2010, the United State Securities and Exchange Commission published “Amendments to Form ADV” which amends the disclosure document that we provide to clients as required by SEC Rules. This Brochure dated March 31, 2011 is a new document prepared according to the SEC’s new requirements and rules. As such, this Document is materially different in structure and requires certain new information that our previous brochure did not require.

In the future, this Item will discuss only specific material changes that are made to the Brochure and provide clients with a summary of such changes. We will also reference the date of our last annual update of our brochure.

In the past we have offered or delivered information about our qualifications and business practices to clients on at least an annual basis. Pursuant to new SEC Rules, we will ensure that you receive a summary of any materials changes to this and subsequent Brochures within 120 days of the close of our business’ fiscal year. We may further provide other ongoing disclosure information about material changes as necessary.

We will further provide you with a new Brochure as necessary based on changes or new information, at any time, without charge.

Currently, our Brochure may be requested by contacting Elise Dietrich, Office Manager at (303) 436-1577 or edietrich@prudentman.com. Our Brochure is also available on our web site www.prudentman.com also free of charge.

Additional information about Prudent Man Investment Management, Inc. is also available via the SEC’s web site www.adviserinfo.sec.gov. The SEC’s web site also provides information about any persons affiliated with Prudent Man Investment Management, Inc. who are registered, or are required to be registered, as investment adviser representatives of Prudent Man Investment Management, Inc.

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Advisory Business

Prudent Man Investment Management, Inc. is an independent, fee-only investment advisory firm providing asset and portfolio management to clients throughout the United States since 1988. Prudent Man is responsible for overseeing approximately \$141 million of assets under management as of March 11, 2011.

Prudent Man Investment Management, Inc. offers both discretionary and non-discretionary investment supervisory services for its full range of clients. Prudent Man follows a disciplined approach to long-term investing based on a belief in global market diversification and true asset allocation through the use of low cost institutional mutual funds. We develop investment portfolios tailored to our clients' specific financial goals and consistent with our mission to provide the best investment experience at the lowest cost; focusing on after tax returns. Our services include assisting clients in the design of written investment objective and policy statements (which will include target rates of return), asset allocation, and the types of investments that may be considered.

Prudent Man Investment Management, Inc., intends to primarily utilize no-load, passively managed, index-based funds for U.S. and International Equity investments to achieve the clients' investment objectives. We closely monitor the clients' investments and investment performance as it relates to the long-term objectives of the clients.

Fees and Compensation

Prudent Man Investment Management, Inc. charges its client's an investment management fee that is established and detailed in a client's written Investment Contract. Although we have a standard fee structure for our clients, the investment management fee is negotiable.

In consideration for the services to be provided by Prudent Man, the Client agrees to the following:

- A minimum fee of \$5,000 or 1% of assets under management up to \$5,000,000, whichever is greater.
- .75% of assets placed under management from \$5,000,000 to \$10,000,000.
- .50% of assets placed under management from \$10,000,000 to \$20,000,000.
- Assets exceeding \$20,000,000, fees are negotiated with client.

Prudent Man Investment Management, Inc. will bill its investment fees on a quarterly basis. Clients will be billed in advance each calendar quarter. Clients may also elect to be billed directly for fees or to authorize Prudent Man Investment Management, Inc. to directly debit fees from client accounts. Accounts initiated or terminated during a calendar quarter will be charged a prorated fee. Upon termination of any account, any prepaid, unearned fees will be promptly refunded, and any earned, unpaid fees will be due and payable. All fees are subject to negotiation.

The investment management fee is obtained by multiplying the market value of the cash and securities in the Client account(s) by one-fourth of the applicable annual fee rate(s) indicated

above, prorated for the percentage of the current calendar quarter remaining. This fee shall be payable in advance upon receipt of billing from Prudent Man.

Prudent Man Investment Management, Inc.'s fees are exclusive of brokerage commissions, transaction fees, and other related costs and expenses which shall be incurred by the client. Clients may incur certain charges imposed by custodians, brokers, third party investment and other third parties such as fees charged by managers, custodial fees, deferred sales charges, odd-lot differentials, transfer taxes, wire transfer and electronic fund fees, and other fees and taxes on brokerage accounts and securities transactions. Mutual funds and exchange traded funds also charge internal management fees, which are disclosed in a fund's prospectus. Such charges, fees and commissions are exclusive of and in addition to Prudent Man Investment Management, Inc.'s fee, and Prudent Man Investment Management, Inc. shall not receive any portion of these commissions, fees, and costs. All fees exclusive of the investment management fee can be obtained by contacting Elise Dietrich at (303) 436-1577 and edietrich@prudentman.com.

Additional Fees

- a) Mutual fund administration fees in the form of expense ratios that are paid directly to the mutual fund provider. The expense ratios will vary from fund to fund, and can range from .09% of fund assets to 1.00% of fund assets. There are no additional sales fees associated with the funds paid to Prudent Man,
- b) Transactions fees per custodian will include the following:
 - 1) \$20 per transaction (a buy or sell) for mutual fund trades placed at Charles Schwab, \$20 per transaction (a buy or sell) for mutual fund trades placed at Fidelity Investments, \$25 per transaction (a buy or sell) for mutual fund trades placed at TD Ameritrade,
 - 2) At a maximum, \$19.95 per 1000 shares of common stock (equities), either limit or market, per transaction (a buy or sell). Each additional stock transaction above the initial 1000 shares will include an additional \$.015 per share,
 - 3) The above stated fees for individual equity trades will be reduced depending upon the total AUM for a given household.

Performance-Based Fees and Side-By-Side Management

Prudent Man Investment Management, Inc. does not charge any performance-based fees (fees based on a share of capital gains on or capital appreciation of the assets of a client).

Types of Clients

Prudent Man Investment Management, Inc. provides portfolio and asset management services to individuals, estates, family trusts, corporate investment plans, corporate sponsored pension and profit sharing plans, and corporate sponsored 401(k) plans. We have a minimum requirement of

Comment [ACM1]: Instruction to Item 7. Describe the types of *clients* to whom you generally provide investment advice, such as individuals, trusts, investment companies, or pension plans. If you have any requirements for opening or maintaining an account, such as a minimum account size, disclose the requirements.
Ascendant Comment: Be sure this response is consistent with Form ADV Part 1, Item 5.D.

\$500,000 of investable assets to open an account with Prudent Man, but we will consider smaller account sizes depending on the nature of the client account(s) in question.

Methods of Analysis, Investment Strategies and Risk of Loss

Prudent Man offers customized investment management services based on our client's overall investment needs. The most important step in the investment process is to interview our clients to understand their risk tolerance by outlining both their short-term income needs and long-term investment objectives so that we can create an investment policy statement. The investment policy statement guides our allocation of assets to cash, fixed income, and equities to deliver a stated investment return.

Our investment strategy is based on our belief in modern portfolio theory and efficient markets. We follow a disciplined and proven approach to long term investing based on a belief in global market diversification and true asset allocation. We invest using only low-cost, passively managed, institutional mutual funds that use the best academic, theoretical, and empirical studies the financial and economic communities have produced. Throughout this process, we make sure every client has a complete understanding of the nature of risk, and how we can incorporate it into a portfolio that will take advantage of the capital markets as we seek portfolio growth and long-term stability. Investing in securities involves risk of loss that clients should be prepared to bear.

Disciplinary Information

Registered investment advisers are required to disclose all material facts regarding any legal or disciplinary events that would be material to your evaluation of Prudent Man Investment Management, Inc. or the integrity of Prudent Man Investment Management, Inc.'s management. Prudent Man Investment Management, Inc. has no information applicable to this Item.

Other Financial Industry Activities and Affiliations

Prudent Man Investment Management, Inc. may, from time to time, enter into agreements with individuals who are not affiliated with Prudent Man Investment Management, to actively solicit whereby the parties will solicit investment advisory accounts for Prudent Man. The solicitor(s) compensation is a percentage of the quarterly investment advisory fee received by Prudent Man from each account the solicitor introduces who ultimately becomes a Client. No client introduced to Prudent Man by the solicitor will be charged an amount in excess of the standard investment advisory fee. The compensation will terminate if the Client solicited terminates their Investment Agreement with Prudent Man.

Code of Ethics

Comment [ACM2]: Instruction to Item 10.

A. If you or any of your *management persons* are registered, or have an application pending to register, as a broker-dealer or a registered representative of a broker-dealer, disclose this fact.

A. If you or any of your *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, disclose this fact.

B. Describe any relationship or arrangement that is material to your advisory business or to your *clients* that you or any of your *management persons* have with any *related person* listed below. Identify the *related person* and if the relationship or arrangement creates a material conflict of interest with *clients*, describe the nature of the conflict and how you address it.

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

... [1]

Comment [ACM3]: Instruction to Item 11.

A. If you are an SEC-registered adviser, briefly describe your code of ethics adopted pursuant to SEC rule 204A-1 or similar state rules.

Explain that you will provide a copy of your code of ethics to any *client* or prospective *client* upon request.

B. If you or a *related person* recommends to *clients*, or buys or sells for *client* accounts, securities in which you or a *related person* has a material financial interest, describe your practice and discuss the conflicts of interest it presents. Describe generally how you address conflicts that arise.

Examples: (1) You or a *related person*, as principal, buys securities from (or sells securities to) your *clients*; (2) you or a *related person* acts as general partner in a partnership in which you solicit *client* investments; or (3) you or a *related person* acts as an investment adviser to an investment company that you recommend to *clients*.

C. If you or a *related person* invests in the same securities (or related securities, e.g., warrants, options or futures) that you or a *related person* recommends to *clients*, describe your practice and discuss the conflicts of interest this presents and generally how you address the conflicts that arise in connection with personal trading.

D. If you or a *related person* recommends securities to *clients*, or buys or sells securities for *client* accounts, at or about the same

... [2]

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

Prudent Man Investment Management, Inc.'s Code of Ethics is as follows:

All employees are required, as part of their terms of employment, to read and sign Prudent Man's Code of Ethics and Confidentiality Agreement. All signed documents are held on file at Prudent Man's office. The Code of Ethics is reviewed by every employee on an annual basis and updated as needed. We will provide this document to our clients upon request.

1. The Parties shall abide by the Prudent Man Investment Management, Inc. Code of Ethics:
 - a. All personnel shall abide by all applicable federal, state and securities laws;
 - b. All personnel shall maintain the interests of the clients as paramount at all times;
 - c. All personnel shall be considered to be functioning in a fiduciary capacity and shall maintain as confidential all information concerning the identity of security holdings and financial circumstances of clients;
 - d. All personnel shall be responsible for maintaining the firm's reputation for consistently acting with the utmost honesty, integrity, and professionalism;
 - e. All personnel are responsible for disclosing all personal trading accounts to the Chief Compliance Officer. All personnel must provide a list of holdings and transactions that occur within those accounts on an annual basis for review. If the accounts are held at the company's custodians, all transactions will be documented within Prudent Man's portfolio management system. For those personal accounts held outside of the company's custodians, documentation must be provided showing all transactions and holdings.
 - f. All personnel will not accept gifts from any entities that are deemed to be beyond the act of normal business, i.e. lunches, seminars, etc.;
 - g. All supervised persons, as defined in section 2.c of Prudent Man's Compliance Manual, shall maintain the independence of the firm in the investment decision-making process by assuring the practice of investing client assets solely in indexed-based, passively-managed mutual funds; All supervised persons, as defined in section 2.c of Prudent Man's Compliance Manual, shall promptly report, in writing, any violations of the Code of Ethics to the Chief Compliance Officer and Chief Executive Officer.
2. For purposes of the Agreement "proprietary information" means any and all confidential, proprietary, or trade secret information or material. This includes all patent applications, financial, technical and customer information. The term "Proprietary information" includes: original documents and any derivatives, portions, or copies thereof, whether in oral, written, visual, graphic, electronic, machine recognizable, or other form or medium;
3. Each disclosing Party will make all reasonable efforts to ensure that the proprietary information it provides to other Parties is clearly identified and marked; provided, however,

that the obligation to protect proprietary information shall extend to unmarked data known by the Parties to be proprietary information, and that proprietary information which may be disclosed orally and protected under this Agreement;

4. The recipient shall use the proprietary information only for the following purpose(s) and no other: To complete tasks assigned by representatives of Prudent Man Investment Management, Inc.;
5. The Parties will not make any commercial use, practice, publication or exploitation of such proprietary information without the express written permission of the disclosing Party. The Parties further agree not to copy or reproduce any proprietary information of the disclosing Party except for the purposes stated above, and that any such copies and reproductions shall contain the same restrictive marking or legend as the original;
6. Each Party agrees to maintain in the strictest confidence any proprietary information which it obtains from another Party and will employ its best efforts to prevent disclosure thereof by its agents, officers, or to third Parties. In the event that communication of proprietary information to a third Party is authorized by the disclosing Party, the third Party shall first be required to assume the obligations of confidentiality set forth in this Agreement;
7. The receiving Party shall permit the dissemination of proprietary information within its own organization only on a genuine need-to-know basis;
8. Any proprietary information disclosed by a Party shall remain the exclusive property of the Party. Upon termination of working relationship, the receiving Party shall return to the disclosing Party all written and or tangible proprietary information and all copies and derivatives thereof. Nothing in this Agreement shall be construed to grant any right or license under any patent, copyright, or any other proprietary right, or grant one Party to make any commitment on behalf of the other;
9. "Proprietary information" subject to protection under this Agreement does not include information which is: (a) demonstrated to be known to the receiving Party; (b) approved in writing for use or disclosure by the disclosing Party; or (c) required by law to be disclosed on a restricted basis pursuant to judicial or other government order, but only to the extent of such order; provided, however, that the receiving Party shall, immediately upon receiving notice of such impending or effective order, notify the disclosing Party thereof;
10. The disclosing Party makes no representation, express or implied, as to the information's adequacy, sufficiency, or freedom from defect of any kind, nor shall any Party incur any responsibility or obligation to third Parties whatsoever by reason of such defect;
11. This Confidentiality Agreement and Code of Ethics document contains the entire agreement and supersedes any prior or collateral understanding between the Parties;
12. This Confidentiality Agreement shall be construed in accordance with all applicable Federal laws and the laws of the State of Colorado.

13. Any changes and/or amendments to the Confidentiality Agreement and/or Code of Ethics shall be provided to each Party for review and acknowledgement. Upon review of the changes, each Party will be required to sign and date a new Confidentiality Agreement and Code of Ethics document to be placed on file within the Parties personnel file;

Prudent Man Investment Management, Inc.'s clients or prospective clients may request a copy of the firm's Code of Ethics by contacting Keith Diamond at (303) 436-1577 or kdiamond@prudentman.com.

Brokerage Practices

Prudent Man Investment Management, Inc. currently uses three (3) separate discount brokers to act as independent custodians for client assets. We have chosen to work with these specific custodians due to the fact that we have negotiated better rates and fees for our clients and because our institutional fund company can only be traded on these platforms. Should the opportunity arise to provide better services and reduced fees, Prudent Man will actively pursue those options. All of our clients and potential clients are given the option to custody funds at either of these discount brokerages. We do not receive soft dollar benefits from these brokerages: Charles Schwab, Inc., Fidelity Investments or TD Ameritrade.

Prudent Man anticipates that for most of the money placed under management, the investment transactions recommended for clients will involve non-broker transactions such as direct purchases of no-load mutual funds purchased directly from the issuer or a custodial discount broker such as Charles Schwab, Inc., Fidelity or TD Ameritrade. In instances in which brokerage services are required, brokers will be selected on the basis of the best overall execution of the Client's order and the value of technical services and expertise provided. Brokerage commissions in excess of the lowest possible available rates may be authorized in recognition of the value of brokerage or technical services provided by the executing broker.

Review of Accounts

Generally, all clients' accounts will be reviewed several times each week. Factors triggering review will include cash additions or withdrawals, dividends and interest payments. Mr. Ronald Proctor, Mr. Keith Diamond and Mr. Christopher Reading have the responsibility for reviewing all accounts.

Client Referrals and Other Compensation

Not Applicable.

Comment [ACM4]: Instruction to Item 12.

A. . Describe the factors that you consider in selecting or recommending . broker-dealers for *client* transactions and determining the . reasonableness of their compensation (e.g., commissions).

1. **Research and Other Soft Dollar Benefits.** If you receive research or other products or services other than execution from a broker-dealer or a third party in connection with *client* securities transactions ("soft dollar benefits"), disclose your practices and discuss the conflicts of interest they create. **Note:** Your disclosure and discussion must include all soft dollar benefits you receive, including, in the case of research, both proprietary research (created or developed by the broker-dealer) and research created or developed by a third party.

a. Explain that when you use *client* brokerage commissions (or markups or markdowns) to obtain research or other products or services, you receive a benefit because you do not have to produce or pay for the research, products or services.

b. Disclose that you may have an incentive to select or recommend a broker-dealer based on your interest in receiving the research or other products or services, rather than on your *clients'* interest in receiving most favorable execution.

... [3]

Comment [ACM5]: Instruction to Item 13.

A. Indicate whether you periodically review *client* accounts or financial plans. If you do, describe the frequency and nature of the review, and the titles of the *supervised persons* who conduct the review.

B. If you review *client* accounts on other than a periodic basis, describe the factors that trigger a review.

C. . Describe the content and indicate the frequency of . regular reports you provide to *clients* regarding their . accounts. State whether these reports are written.

Ascendant Comment: Cross-reference your response about reports provided to clients with information about custody required in Item 15.

Comment [ACM6]: Instruction to Item 3.

A. If someone who is not a *client* provides an economic benefit to you for providing investment advice or other advisory services to your *clients*, generally describe the arrangement, explain the conflicts of interest, and describe how you address the conflicts of interest. For purposes of this Item, economic benefits include any sales awards or other prizes.

B. If you or a *related person* directly or indirectly compensates any *person* who is not your *supervised person* for *client* referrals, describe the arrangement and the compensation.

Note: If you compensate any *person* for *client* referrals, you should consider whether SEC rule 206(4)-3 or similar state rules regarding solicitation arrangements and/or state rules requiring registration of *investment adviser representatives* apply.

Item 15 – Custody

Prudent Man Investment Management, Inc. uses three (3) primary discount brokerages to custody funds. We are allowed to transact on behalf of our clients, direct debit quarterly investment fees and set-up periodic withdrawals at the behest of or client. Clients should receive at least quarterly statements from the broker dealer, bank or other qualified custodian that holds and maintains client's investment assets. Prudent Man Investment Management, Inc. urges you to carefully review such statements and compare such official custodial records to the account statements that we may provide to you. Our statements may vary from custodial statements based on accounting procedures, reporting dates, or valuation methodologies of certain securities.

Item 16 – Investment Discretion

Prudent Man Investment Management, Inc. usually receives discretionary authority from the client at the outset of an advisory relationship to select the identity and amount of securities to be bought or sold. In all cases, however, such discretion is to be exercised in a manner consistent with the stated investment objectives for the particular client account.

When selecting securities and determining amounts, Prudent Man Investment Management, Inc. observes the investment policies, limitations and restrictions of the clients for which it advises. For registered investment companies, Prudent Man Investment Management, Inc.'s authority to trade securities may also be limited by certain federal securities and tax laws that require diversification of investments and favor the holding of investments once made.

Investment guidelines and restrictions must be provided to Prudent Man Investment Management, Inc. in writing.

Voting Client Securities

Clients may obtain a copy of Prudent Man Investment Management, Inc.'s complete proxy voting policies and procedures upon request. Clients may also obtain information from Prudent Man Investment Management, Inc. about how Prudent Man Investment Management, Inc. voted any proxies on behalf of their account(s).

Item 18 – Financial Information

Comment [ACM7]: Instruction to Item 15.

If you have custody of client funds or securities and a qualified custodian sends quarterly, or more frequent, account statements directly to your clients, explain that clients will receive account statements from the broker-dealer, bank or other qualified custodian and that clients should carefully review those statements. If your clients also receive account statements from you, your explanation must include a statement urging clients to compare the account statements they receive from the qualified custodian with those they receive from you.

Ascendant Comment: According to our reading of Rule 206(4)-2 of the Investment Advisers Act, an adviser is only required to urge such a comparison between its statements and the qualified custodian's statements if an adviser has authority to open accounts on clients' behalfs (e.g., adviser has general power of attorney, acts as trustee, or other circumstances). However, this instruction imposes a broader disclosure obligation for Item 15. Remember that for these purposes SEC registered advisers are deemed to have [... [4]

Comment [ACM8]: Instruction to Item 16.

If you accept discretionary authority to manage securities accounts on behalf of clients, disclose this fact and describe any limitations clients may (or customarily do) place on this authority. Describe the procedures you follow before you assume this authority (e.g., execution of a power of attorney).

Comment [ACM9]: Instruction to Item 17.

A. If you have, or will accept, authority to vote client securities, briefly describe your voting policies and procedures, including those adopted pursuant to SEC rule 206(4)-6. Describe whether (and, if so, how) your clients can direct your vote in a particular solicitation. Describe how you address conflicts of interest between you and your clients with respect to voting their securities. Describe how clients may obtain information from you about how you voted their securities. Explain to clients that they may obtain a copy of your proxy voting policies and procedures upon request.

Comment [ACM10]: Instruction to Item 18.

A. If you require or solicit prepayment of more than \$1,200 in fees per client, six months or more in advance, include a balance sheet for your most recent fiscal year.
1. The balance sheet must be prepared in accordance with generally accepted accounting principles, audited by an independent public accountant, and accompanied by a note stating the principles used to prepare it, the basis of securities included, and any other explanations required for clarity.
2. Show parenthetically the market or fair value of securities included at cost.
3. Qualifications of the independent public accountant and any accompanying indep [... [5]

Registered investment advisers are required in this Item to provide you with certain financial information or disclosures about Prudent Man Investment Management, Inc.'s financial condition. Prudent Man Investment Management, Inc. has no financial commitment that impairs its ability to meet contractual and fiduciary commitments to clients, and has not been the subject of a bankruptcy proceeding.

Instruction to Item 10.

- A. If you or any of your *management persons* are registered, or have an application pending to register, as a broker-dealer or a registered representative of a broker-dealer, disclose this fact.
- A. If you or any of your *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, disclose this fact.
- B. Describe any relationship or arrangement that is material to your advisory business or to your *clients* that you or any of your *management persons* have with any *related person* listed below. Identify the *related person* and if the relationship or arrangement creates a material conflict of interest with *clients*, describe the nature of the conflict and how you address it.
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. If you recommend or select other investment advisers for your *clients* and you receive compensation directly or indirectly from those advisers that creates a material conflict of interest, or if you have other business relationships with those advisers that create a material conflict of interest, describe these practices and discuss the material conflicts of interest these practices create and how you address them.

Instruction to Item 11.

- A. If you are an SEC-registered adviser, briefly describe your code of ethics adopted pursuant to SEC rule 204A-1 or similar state rules. Explain that you will provide a copy of your code of ethics to any *client* or prospective *client* upon request.
- B. If you or a *related person* recommends to *clients*, or buys or sells for *client* accounts, securities in which you or a *related person* has a material financial interest, describe your practice and discuss the conflicts of interest it presents. Describe generally how you address conflicts that arise.
- Examples: (1) You or a *related person*, as principal, buys securities from (or sells securities to) your *clients*; (2) you or a *related person* acts as general partner in a partnership in which you solicit *client* investments; or (3) you or a *related person* acts as an investment adviser to an investment company that you recommend to *clients*.
- C. If you or a *related person* invests in the same securities (or related securities, *e.g.*, warrants, options or futures) that you or a *related person* recommends to *clients*, describe your practice and discuss the conflicts of interest this presents and generally how you address the conflicts that arise in connection with personal trading.
- D. If you or a *related person* recommends securities to *clients*, or buys or sells securities for *client* accounts, at or about the same time that you or a *related person* buys or sells the same securities for your own (or the *related person's* own) account, describe your practice and discuss the conflicts of interest it presents. Describe generally how you address conflicts that arise.

Note: The description required by Item 11.A may include information responsive to Item 11.B, C or D. If so, it is not necessary to make repeated disclosures of the same information. You do not have to provide disclosure in response to Item 11.B, 11.C, or 11.D with respect to securities that are not "reportable securities" under SEC rule 204A-1(e)(10) and similar state rules.

Ascendant Comment: State registered investment advisers should review their applicable state regulations regarding the requirement to have a Code of Ethics.

Instruction to Item 12.

- A. Describe the factors that you consider in selecting or recommending broker-dealers for *client* transactions and determining the reasonableness of their compensation (e.g., commissions).
1. Research and Other Soft Dollar Benefits. If you receive research or other products or services other than execution from a broker-dealer or a third party in connection with *client* securities transactions ("soft dollar benefits"), disclose your practices and discuss the conflicts of interest they create. **Note:** Your disclosure and discussion must include all soft dollar benefits you receive, including, in the case of research, both proprietary research (created or developed by the broker-dealer) and research created or developed by a third party.
- a. Explain that when you use *client* brokerage commissions (or markups or markdowns) to obtain research or other products or services, you receive a benefit because you do not have to produce or pay for the research, products or services.
 - b. Disclose that you may have an incentive to select or recommend a broker-dealer based on your interest in receiving the research or other products or services, rather than on your *clients'* interest in receiving most favorable execution.
 - c. If you may cause *clients* to pay commissions (or markups or markdowns) higher than those charged by other broker-dealers in return for soft dollar benefits (known as paying-up), disclose this fact.
 - d. Disclose whether you use soft dollar benefits to service all of your *clients'* accounts or only those that paid for the benefits. Disclose whether you seek to allocate soft dollar benefits to *client* accounts proportionately to the soft dollar credits the accounts generate.
 - e. Describe the types of products and services you or any of your *related persons* acquired with *client* brokerage commissions (or markups or markdowns) within your last fiscal year.

Note: This description must be specific enough for your *clients* to understand the types of products or services that you are acquiring and to permit them to evaluate possible conflicts of interest. Your description must be more detailed for products or services that do not qualify for the safe harbor in section 28(e) of the Securities Exchange Act of 1934, such as those services that do not aid in investment decision-making or trade execution. Merely disclosing that you obtain various research reports and products is not specific enough.

- f. Explain the procedures you used during your last fiscal year to direct *client* transactions to a particular broker-dealer in return for soft dollar benefits you received.

2. Brokerage for Client Referrals. If you consider, in selecting or recommending broker-dealers, whether you or a *related person* receives *client* referrals from a broker-dealer or third party, disclose this practice and discuss the conflicts of interest it creates.

- a. Disclose that you may have an incentive to select or recommend a broker-dealer based on your interest in receiving *client* referrals, rather than on your *clients'* interest in receiving most favorable execution.
- b. Explain the procedures you used during your last fiscal year to direct *client* transactions to a particular broker-dealer in return for *client* referrals.

3. Directed Brokerage.

- a. If you routinely recommend, request or require that a *client* direct you to execute transactions through a specified broker-dealer, describe your practice or policy. Explain that not all advisers require their *clients* to direct brokerage. If you and the broker-dealer are affiliates or have another economic relationship that creates a material conflict of interest,

describe the relationship and discuss the conflicts of interest it presents. Explain that by directing brokerage you may be unable to achieve most favorable execution of *client* transactions, and that this practice may cost *clients* more money.

b. If you permit a *client* to direct brokerage, describe your practice. If applicable, explain that you may be unable to achieve most favorable execution of *client* transactions. Explain that directing brokerage may cost *clients* more money. For example, in a directed brokerage account, the *client* may pay higher brokerage commissions because you may not be able to aggregate orders to reduce transaction costs, or the *client* may receive less favorable prices.

Note: If your *clients* only have directed brokerage arrangements subject to most favorable execution of *client* transactions, you do not need to respond to the last sentence of Item 12.A.3.a. or to the second or third sentences of Item 12.A.3.b.

B. Discuss whether and under what conditions you aggregate the purchase or sale of securities for various *client* accounts. If you do not aggregate orders when you have the opportunity to do so, explain your practice and describe the costs to *clients* of not aggregating.

Ascendant Comment: Ascendant's experienced personnel may be retained to assist with your required regulatory disclosures.

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Instruction to Item 15.

If you have *custody* of *client* funds or securities and a qualified custodian sends quarterly, or more frequent, account statements directly to your *clients*, explain that *clients* will receive account statements from the broker-dealer, bank or other qualified custodian and that *clients* should carefully review those statements. If your *clients* also receive account statements from you, your explanation must include a statement urging *clients* to compare the account statements they receive from the qualified custodian with those they receive from you.

Ascendant Comment: According to our reading of Rule 206(4)-2 of the Investment Advisers Act, an adviser is only required to *urge* such a comparison between its statements and the qualified custodian's statements if an adviser has authority to open accounts on clients' behalfs (e.g., adviser has general power of attorney, acts as trustee, or other circumstances). However, this instruction imposes a broader disclosure obligation for Item 15. Remember that for these purposes SEC registered advisers are deemed to have custody based solely on the ability to debit advisory fees.

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Instruction to Item 18.

- A. If you require or solicit prepayment of more than \$1,200 in fees per *client*, six months or more in advance, include a balance sheet for your most recent fiscal year.
1. The balance sheet must be prepared in accordance with generally accepted accounting principles, audited by an independent public accountant, and accompanied by a note stating the principles used to prepare it, the basis of securities included, and any other explanations required for clarity.
 2. Show parenthetically the market or fair value of securities included at cost.
 3. Qualifications of the independent public accountant and any accompanying independent public accountant's report must conform to Article 2 of SEC Regulation S-X.

Note: If you are a sole proprietor, show investment advisory business assets and liabilities separate from other business and personal assets and liabilities. You may aggregate other business and personal assets unless advisory business liabilities exceed advisory business assets.

Note: If you have not completed your first fiscal year, include a balance sheet dated not more than 90 days prior to the date of your *brochure*.

Exception: You are not required to respond to Item 18.A of Part 2A if you also are: (i) a qualified custodian as defined in SEC rule 206(4)-2 or similar state rules; or (ii) an insurance company.

- B. If you have *discretionary authority* or *custody* of *client* funds or securities, or you require or solicit prepayment of more than \$1,200 in fees per *client*, six months or more in advance, disclose any financial condition that is reasonably likely to impair your ability to meet contractual commitments to *clients*.

Note: With respect to Items 18.A and 18.B, if you are registered or are registering with one or more of the *state securities authorities*, the dollar amount reporting threshold for including the required balance sheet and for making the required financial condition disclosures is more than \$500 in fees per *client*, six months or more in advance.

- C. If you have been the subject of a bankruptcy petition at any time during the past ten years, disclose this fact, the date the petition was first brought, and the current status.