

**Item 1 – Cover Page**



**ICM Asset Management, Inc.**

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Form ADV Part 2A  
December 31, 2011

Form ADV Part 2A ("Brochure") provides information about the qualifications and business practices of ICM Asset Management, Inc ("ICM"). If you have any questions about the contents of this Brochure, please contact us at 800.488.4075 and/or [clientservices@icmasset.com](mailto:clientservices@icmasset.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.

ICM 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 for you to utilize to determine who to hire or retain as an Adviser. Additional information about ICM Asset Management, Inc is also available on the SEC's website at: [www.advisorinfo.sec.gov](http://www.advisorinfo.sec.gov)

## Item 2 – Material Changes

ICM Asset Management, Inc's most recent amendment to ADV Part 2A was made on December 31, 2010. There have been no material changes to ICM's business activities since the time of the last update. However, there have been minor changes we would like to notify you of:

- ICM has modified its investment processes in order to better adapt our fundamental approach to the high volume trading that now exists. ICM continues to believe that fundamental value oriented investing is the preferred approach, but the increased volatility of the equity markets and many individual stocks due to computerized or high frequency trading makes it more critical to respond to abrupt changes in stock prices. The changes made seek to reduce clients' portfolio volatility. As a result of this modification of our process, two equity portfolio analysts/managers are no longer with the firm.
- Previously ICM utilized a third party vendor to vote client proxies. Beginning in 2012, ICM will vote all proxies for all managed and unmanaged securities for those clients who have designated ICM to have proxy voting authority.
- ICM has moved to a new suite within our current building that better suits our business needs, the new address is:

ICM Asset Management, Inc.  
601 W Main Avenue, **Suite 900**  
Spokane WA 99201

Historically, ICM has 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 material changes to this and subsequent Brochures within 120 days of the close of our business' fiscal year. ICM will also provide other ongoing disclosure information or a revised Brochure, as necessary, should there be material changes and/or new information.

Our Brochure may be requested by contacting ICM's Chief Compliance Officer, Lisa House, at 800.488.4075 or [clientservices@icmasset.com](mailto:clientservices@icmasset.com) or via our web site [icmasset.com](http://icmasset.com) under the Legal Disclosures section. Brochures will be delivered in all formats free of charge.

Additional information about ICM is also available via the Investment Advisor Public Disclosure (IAPD) section of the SEC's web site [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov). The IAPD may be searched by either the adviser's name, CRD Number (105046), or SEC Number (801-16670). The SEC's web site also provides information about any persons affiliated with ICM who are registered, or are required to be registered, as investment adviser representatives of ICM.

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#### **Item 4 – Advisory Business**

Founded in Spokane, Washington in 1981, ICM Asset Management, Inc. ("ICM") is an independent national money management firm with an investment team that has experience in a range of investment styles. ICM is predominantly employee and family-owned; James Simmons, ICM's Chief Executive Officer and Chief Investment Officer owns 70%, Vicki Simmons, Vice President, Community Relations owns 19%, and the remaining shares are owned by family members, previous employees and current employees.

ICM provides investment advice and management to individually managed accounts and investment limited partnerships. ICM also provides asset allocation services based on individual client needs. ICM holds a limited power of attorney to act on a discretionary basis with client funds (See Item 16 – Investment Discretion). Client funds are deposited in either a brokerage firm or a bank custodial account. ICM's equity investment styles include: Small Cap intrinsic Value, Large Cap Globally Dominant, All Cap, Opportunistic Long/short, International Tactical, Diversified Income, and Enhanced Income. Our fixed income strategies include Enhanced Benchmark Aggregate and Intermediate Govt./Credit, Liquidity, and Municipal Bond. See Item 8 – Methods of Analysis, Investment Strategies, and Risk of Loss for additional detail.

ICM is authorized to enter into any type of investment transaction, using a broad variety of securities that it deems appropriate for each of its clients, pursuant to the terms of the partnership or other account agreement with that client. ICM does not currently advise clients on any types of investments other than equity exchange listed and over-the-counter securities including common and preferred equities, equity options, ETF's, foreign issued equities and bonds, warrants, various corporate debt securities (other than commercial paper), commercial papers, certificates of deposit, municipal securities, mutual fund shares, REITs, and United States government securities.

ICM cannot assure any client or potential client that ICM will achieve the stated investment objectives described within this Brochure.

In addition to the strategies mentioned above ICM also offers the equity investment advisory services under "wrap fee" arrangements offered by brokers. Under these arrangements, a client pays a fixed fee that covers some or all of the costs and expenses of managing the

client's account rather than paying those costs and expenses individually. In addition, the investment minimums under some wrap fee arrangements are lower than ICM's standard minimums for individually managed accounts.

ICM participates in two general types of wrap fee arrangements: traditional wrap fee arrangements and client directed brokerage fee-in-lieu arrangements.

### **Traditional Wrap Fee Arrangements**

Under a traditional wrap fee arrangement, the client pays the sponsoring broker a single fee that generally includes:

- The sponsoring broker's advisory services (if also a registered investment adviser);
- ICM's investment advisory services;
- Custodial and trade execution services; and
- Quarterly measurement reports and/or other account-related services provided by the sponsor as set forth in the wrap sponsor's Form ADV Part 2A Appendix 1.

Quarterly the sponsoring broker pays ICM a portion of the fee received by the wrap fee clients for our investment advisory services. The fee is based on the amount of assets in the wrap fee clients' account.

Below is a list of traditional wrap fee programs and sponsors through which ICM provides investment management services. Accounts in each wrap fee program are traded the same as directed brokerage arrangements. Further disclosure regarding directed brokerage arrangements is provided in Item 12 – Brokerage Practices – Soft Dollars - Client Referrals – Directed Brokerage. Clients in wrap fee programs should also review the sponsor's Form ADV Part 2A Appendix 1 for information about where their accounts are traded.

- Concord Equity Group Advisors, LLC: BNYCS. Minimum investment \$100,000.
- Stifel Nicolaus & Co.: Stifel Managed Assets Program. Minimum Small Cap Intrinsic Value investment \$100,000.
- Wedbush Morgan Securities: Guided Managed Assets Program. Minimum investment \$100,000.

### **Client Directed Brokerage Fee-in-Lieu Arrangements**

Under a client directed brokerage fee-in-lieu arrangement, the client engages a broker to execute all trades in the client's account for a fixed fee and directs ICM to place all transactions for the account with the sponsoring broker. Transactions under such an arrangement are effected "net;" i.e., without commissions, and a portion of the fee paid by the client to the broker is considered to be a "fee-in-lieu of commissions." The client is responsible for negotiating such a fee with the broker.

This arrangement differs from a traditional wrap fee program in that the client opens an individually managed account subject to ICM's standard investment minimums and enters into an investment management agreement directly with ICM. The client also pays ICM's management fee for the investment strategy the client selects separately from the fee paid to the broker. Most brokerage firms that serve as custodians for ICM clients have directed brokerage fee-in-lieu arrangements available.

The fee that the client pays the broker in wrap and fee-in-lieu arrangements generally do not include (the client will be responsible and charged for):

- Brokerage commissions on agency trades and markups and markdowns on principal transactions effected by ICM through or with brokers other than the sponsoring broker, although it is not anticipated that ICM will use brokers other than the sponsors. If ICM executes a "step-out" trade for a client (see the discussion with respect to Item 12 – Soft Dollars - Brokerage Practices - Client Referrals – Directed Brokerage; Aggregated Securities Transactions), the client will only pay the transaction fees charged by the sponsoring broker;
- Interest on debit accounts;
- The entire public offering price on securities purchased from an underwriter or dealer involved in a distribution of securities;
- Odd-lot differentials and exchange fees, transfer taxes, and other fees required by law; and
- Individual retirement account fees and other fees described in the sponsor's Form ADV Part 2A Appendix 1.

Brokerage commissions and other costs for transactions executed on behalf of wrap or fee-in-lieu accounts are not negotiated by ICM. Trades are generally executed with the broker sponsoring the wrap or fee-in-lieu account because the fee paid by the client already includes brokerage expenses. Each client considering opening a wrap or fee-in-lieu account should consider whether:

- A wrap or fee-in-lieu arrangement will provide adequate price and execution of transactions in the client's account;
- The fee charged by the broker is appropriate for the level of activity in the account;
- The value of custodial and other services provided by the sponsoring broker is sufficient; and
- The wrap fee or fee-in-lieu fee exceeds the aggregate cost of such services if they were to be provided separately.

In addition, clients considering opening wrap or fee-in-lieu accounts should review the response to Item 12 – Brokerage Practices – Soft Dollars - Client Referrals – Directed Brokerage, which discuss the limitations on trading for accounts that have directed ICM to use a particular broker. Additional information regarding wrap accounts is contained in the sponsor's Form ADV Part 2A Appendix 1.

### **Asset Allocation Services**

As mentioned above, ICM offers a range of equity and fixed income strategies. Clients may choose from these strategies or they may elect to have ICM's Private Client Services Team build an individually tailored portfolio mix.

ICM offers asset allocation services to individual 401(k) participants and other retirement plans. The asset allocations are developed based on information about the participant's investment objectives, risk tolerance, income needs, and investment time horizon. ICM selects an optimal allocation among the investment options available under the plan in which the client participates. ICM then periodically reviews and rebalances the allocation for the client. Fees charged to clients for the asset allocation services do not vary based on the investment options selected for the client.

ICM may offer investments in mutual funds as part of an asset allocation plan. ICM selects mutual funds based on the fund's sector orientation, an evaluation of the mutual fund's performance history, management team, total assets, expense ratio, turnover ratio, dividend yield and sales fees. Asset or sector orientation is considered more important than a fund's performance history.

ICM also provides financial planning services to its asset allocation clients. The financial planning services may include:

- Review of current investments;
- Determining a client's risk profile;
- Establishing an appropriate asset allocation model; and
- Coordinating with a client's accountant, attorney and other professionals for family trusts, estate planning, retirement planning, tax issues, pensions and other special situations.

ICM may from time to time refer clients to accountants, attorneys or insurance agents from which ICM receives client referrals. This could create a conflict of interest in that ICM has an incentive to refer clients to accountants, attorneys or insurance agents that have referred, or may in the future refer clients to ICM. Nevertheless, ICM believes that any referral it makes to such an accountant, attorney or insurance agent is based on an objective review of the needs of the client and is in the best interests of the client.

### **Class Actions**

ICM does not initiate class action claims on behalf of clients. This does not affect the client's eligibility to participate in class action suits. Depending upon custodial relationships, class action filings may be done by the custodian or the client.

### **Assets Under Management**

As of December 31, 2011, ICM managed the following level of assets and accounts:

|                   | <u>U.S Dollar Amount</u> | <u>Total Number of Accounts</u> |
|-------------------|--------------------------|---------------------------------|
| Discretionary     | (a) \$191,196,149.00     | (a2) 374                        |
| Non-Discretionary | (b) \$ 1,199,360.00      | (b2) 9                          |
| Total Assets:     | (c) \$192,395,509.00     | (c2) 383                        |

## **Item 5 – Fees and Compensation**

ICM charges individually managed accounts an annual management fee based on a percentage of the market value of assets under management as calculated by ICM on the date the fee becomes due and payable. Clients may also elect to be billed directly for fees or to authorize ICM to directly debit fees from client accounts. The fees are generally payable in advance at the beginning of each calendar quarter (January 1, April 1, July 1, and October 1), or in arrears at the end of each calendar quarter.

The fee schedule below describes the current standard fees applied to most new non-wrap fee accounts. However, some clients' fees may vary depending on individual circumstances. Wrap fee clients may pay fees lower than those listed as a result of negotiated agreements between the wrap sponsor and ICM. Fees may be waived or reduced for the accounts of certain affiliates of ICM and their family members. In addition, ICM offers a discount off the standard fee schedule for non-profit and charitable accounts. ICM also reserves the right under certain circumstances to negotiate fees.

ICM'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 by custodians, brokers, and other third parties such as: custodial fees, deferred sales charges, odd-lot differentials, transfer taxes, wire transfer and electronic fund fees, and other fees and taxes on brokerage accounts. These are exclusive of and in addition to ICM's management fee, and ICM shall not receive any portion of these expenses.

Item 12 – Brokerage Practices – Soft Dollars - Client Referrals – Directed Brokerage describes in greater detail the factors ICM considers in selecting or recommending brokers for transactions and determining the reasonableness of the associated compensation (i.e. commissions).

ICM believes its investment management fees are competitive with fees charged by other investment advisers for comparable services. However, lower fees for comparable services may be available from other sources.

ICM charges a minimum annual fee of seven hundred and fifty dollars for all investment strategies.

**Small Cap Intrinsic Value Equity Management**

| <u>Asset Value</u> | <u>Annual Advisory Fee</u> |
|--------------------|----------------------------|
| First \$10,000,000 | 1.00%                      |
| Over \$10,000,000  | negotiable                 |

**Large Cap Globally Dominant Equity Management**

| <u>Asset Value</u> | <u>Annual Advisory Fee</u> |
|--------------------|----------------------------|
| First \$10,000,000 | .85%                       |
| Over \$10,000,000  | Negotiable                 |

**All Cap Equity Management**

| <u>Asset Value</u> | <u>Annual Advisory Fee</u> |
|--------------------|----------------------------|
| First \$10,000,000 | 1.00%                      |
| Over \$10,000,000  | negotiable                 |

**Fixed Income Enhanced Benchmark – Aggregate and Intermediate**

| <u>Asset Value</u> | <u>Annual Advisory Fee</u> |
|--------------------|----------------------------|
| First \$1,000,000  | .70%                       |
| Over \$1,000,000   | Negotiable                 |

**Fixed Income Liquidity Management**

| <u>Asset Value</u> | <u>Annual Advisory Fee</u> |
|--------------------|----------------------------|
| First \$5,000,000  | .50%                       |
| Over \$5,000,000   | Negotiable                 |

**Fixed Income Active Municipal Bond Management**

| <u>Asset Value</u> | <u>Annual Advisory Fee</u> |
|--------------------|----------------------------|
| First \$5,000,000  | .60%                       |
| Over \$5,000,000   | Negotiable                 |

### **Other Fees**

ICM offered a balanced account fee for a limited number of clients. Balanced account fee schedules are not available to new clients.

### **Asset Allocation Services**

ICM charges clients who choose its asset allocation services an annual fee generally in the range of .75% to 1% of assets under management, payable in advance at the beginning of each calendar quarter. ICM's fees are in addition to fees charged by the investment adviser of any mutual funds which may be purchased for clients.

Certain asset allocation clients are referred to ICM by solicitors. A client introduced by a solicitor may pay a higher fee than clients who are not introduced by a solicitor. This arrangement is set forth in a disclosure document presented by the solicitor to the client along with ICM's Form ADV Part 2A.

### **Wrap Fee Programs**

Total fees paid to the brokers that sponsor the traditional wrap fee arrangements in which ICM participates generally range from 1.5% - 3% annually, payable quarterly either in advance or arrears, and are based on the net market value of the client's account as calculated by the program sponsor on the date the fee accrues and becomes payable. Brokerage firms that offer fee-in-lieu arrangements in which ICM participates receive a fixed fee from clients that use their services. ICM does not receive a portion of this fee, but receives from the client the appropriate management fee for the investment strategy that the client selects.

### **Investment Limited Partnerships**

Although the Koyah and Raven Investment Limited Partnerships are no longer accepting new capital, ICM continues to manage the private company investments which remain within the existing Partnerships. Koyah Ventures, LLC and Raven Ventures, LLC, affiliates of ICM, are the general partners of each investment limited partnership managed by ICM (each, a "Partnership") receive an annual fee (generally .5% to 2.5% of assets under management), which amount is payable in quarterly installments at the beginning of each calendar quarter based on the net market value of the account on the date the fee accrues and becomes payable. In turn, the general partner of a Partnership may pay ICM, or the Partnerships may

pay directly to ICM, all or a portion of that fee for ICM's investment management services. Refer to Item 6 – Performance-Based Fees and Side-By-Side Management for further detail.

### **Performance Fee Accounts**

Portfolios within the Opportunistic Long/Short strategy are charged an asset based management fee and a performance fee. Refer to Item 6 – Performance-Based Fees and Side-By-Side Management for further detail.

### **Termination of Investment Advisory Services**

Individually managed accounts may be terminated without penalty within five business days after the client and ICM have entered into the investment management agreement with respect to that account. Except as may be otherwise negotiated in particular cases, individually managed accounts, including asset allocation, performance fee and wrap accounts, may be terminated by the client or ICM on written notice. Additionally, the custodian, broker, and or consultant must confirm that ICM received such termination notification. Liquidation requests received by ICM after 12:00 pm PST will be executed on a “best effort” basis. All prepaid but unearned advisory fees for individually managed accounts are refunded to the client after termination of an account.

The affiliated Partnerships' investment management agreements with ICM are terminable by either the Partnership or ICM on 90 days prior written notice. Each limited partner in a Partnership which invests in public companies is able to withdraw from a Partnership after that limited partner has been admitted to the Partnership for one year, or two years as set forth in the Partnership Agreement. Thereafter, a limited partner may withdraw on specified prior written notice such amounts as are permitted by that Partnership's Agreement of Limited Partnership on the last day of any calendar quarter. Expenses, the pro rata portion of ICM's management fee and any performance fee or allocation through the date of termination are charged to the client. Limited partners in the Partnerships are charged ICM's full management fee for the quarter; the fee will not be prorated.

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

In some cases, ICM has entered into performance fee arrangements with qualified clients: such fees are subject to individualized negotiation with each client. ICM will structure any

performance or incentive fee arrangement subject to Section 205(a)(1) of the Investment Advisors Act of 1940 (The Advisors Act) in accordance with the available exemptions, including the exemption set forth in Rule 205-3.

**Investment Limited Partnerships** - Although the Koyah and Raven Investment Limited Partnerships are no longer accepting new capital, ICM continues to manage the private company investments within the existing Partnerships. Koyah Ventures, LLC and Raven Ventures, LLC, affiliates of ICM, are the general partners of each investment limited partnership managed by ICM. The general partner of each Partnership is allocated, from each limited partner, a performance allocation. The performance allocation is equal to 20% of the amount by which net profits, including both realized and unrealized gains and losses, otherwise allocable to that limited partner exceed the sum of the cumulative losses previously allocated to that limited partner, and in some cases a non-cumulative specified hurdle rate.

**Performance Fee Accounts** - In addition to the asset based fee set forth in the original contract, the Opportunistic Long/Short client(s) shall pay ICM a performance fee. The performance fee percentage and initial charge date are agreed to by ICM and the Client via a fee Addendum. The Performance fees are assessed in arrears on a quarterly basis. In measuring clients' assets for the calculation of performance-based fees, ICM shall include realized and unrealized capital gains and losses to the extent that net profits of the Account exceed the sum of cumulative losses.

Performance based fee arrangements may create an incentive for ICM to recommend investments which may be riskier or more speculative than those which would be recommended under a different fee arrangement. Such fee arrangements could potentially create an incentive to favor higher fee paying accounts over other accounts in the allocation of investment opportunities; however, ICM has procedures designed and implemented to ensure that all clients are treated fairly and equally, and to prevent this conflict from influencing the allocation of investment opportunities among clients.

## **Item 7 – Types of Clients**

ICM provides portfolio management services to individuals, high-net-worth individuals, corporations and businesses, Taft-Hartley and other pension plans, charitable institutions, foundations and endowments, trusts, estates, banks or thrift institutions, and private investment funds.

ICM also offers investment advisory services to Model Program Sponsors in the form of model portions based on one or more of our investment strategies. Program Sponsors utilize the model portfolios to provide investment services to their clients. However, it is up to the Model Program Sponsor to accept, modify, or reject ICM's model portfolio recommendations and therefore, ICM does not have discretion over these portfolios. On a quarterly basis ICM receives a portion of the investment management fee paid to the Model Program Sponsor by the participating portfolios.

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

### **Methods of Analysis - Equity**

ICM operates with an investment team approach. The portfolio management team is responsible for investment strategy, sector and security selection, and portfolio construction. The research analysts, along with the portfolio management team concentrate on sector and individual company analysis. Security selection is a team process from start to finish.

ICM's equity investment philosophy has been built on the belief that by adhering to sound value practices and employing a disciplined process based on strong fundamental research, it is possible to outperform other investment styles over time. In a highly competitive investment industry, ICM seeks to outperform competitors by focusing on areas or sectors of the securities market that are prone to being inefficiently priced. In the broadest sense, this means that the investment team must be continuously adaptable to the ever changing economic and investment environment, while staying committed to the search for opportunities in the unloved (value) and less efficiently researched (smaller cap) segments of the domestic equity markets. ICM's large cap strategies leverage this fundamentally driven focus into a more global capacity, focusing primarily on mis-priced companies with apparent and sustainable competitive advantages in multiple international marketplaces. As the fortunes of various economic sectors

and global regions rise and fall, these opportunities will turn up in different places and at different times. So by being willing to rotate our focus throughout the economy and by combining that with thorough research of company fundamentals and company management teams, we believe we will be successful on behalf of our clients.

ICM's research process entails both a qualitative and quantitative component. From a quantitative perspective, we favor companies trading below their normal valuations in price/earnings, price/sales, price/cash flow, price/book within their industry peer group. Qualitative factors involved in the stock selection process include an analysis of the specific industry, the firm's competitive position within the industry, the quality and depth of management, and catalysts for improving fundamentals. Potential catalysts for change include senior management changes, cost and debt reduction efforts, technology breakthroughs, asset sales, stock buyback plans, new sources of earnings, expansion to new markets, and the ability to raise prices.

ICM's portfolios are not built around the benchmark sector weights or individual stocks as we are more focused on finding companies and sectors that we believe are poised for outperformance regardless of the benchmark weightings. Although constantly aware of the benchmark weightings, we do not measure tracking error as a management tool in the decision making process.

ICM also believes that the evolution of computer based and high frequency trading has resulted in more volatility for the general market and for many individual stocks. As a result, our value based process incorporates technical analysis into our fundamental research in an attempt to mitigate some of the volatility.

ICM's traders execute the orders and monitor the markets for investment opportunities relaying the information to our portfolio management team and research analysts throughout the day. ICM considers this function to be value added due to their experience and knowledge of the markets and ability to execute thinly traded stocks on a best execution basis.

## **Investment Strategies - Equity**

### **Small Cap Intrinsic Value**

The Small Cap Intrinsic Value strategy focuses on companies within the market capitalization range of the Russell 2500™ index. The companies in which ICM actually invests, on behalf of clients, may from time to time have higher or lower market capitalization. In addition, more aggressive accounts may be invested to a greater degree in companies with lower market capitalizations while more conservative accounts may be invested in companies with higher market capitalizations.

The Small Cap Intrinsic Value strategies begin with the search for companies for which ICM believes the stock is trading at a significant discount to what we perceive to be the true worth of the company. These companies usually have either fallen into disfavor among investors or are, in ICM's opinion, under-researched. Two different but complementary methods are used to facilitate this search. The first method is economic sector driven (top-down). ICM identifies broad sectors of the equity market it believes may be under-valued, and then seeks to identify individual companies within those sectors that meet ICM's investment criteria. The second method focuses on attempting to discover inefficiently priced stocks regardless of how their respective sectors are valued (bottom-up). These two approaches are combined in varying proportions depending on market conditions.

Regardless of which approach is used to identify investment candidates, ICM then applies fundamental research analysis to those candidates. Generally, direct contact with management is augmented with periodic discussions with analysts, industry experts, customers, suppliers and competitors. The objective of this process is to position clients in a portfolio of these overlooked stocks in anticipation of the market's initial discovery or renewed appreciation of their investment value.

The universe from which ICM's Small Cap Intrinsic Value investment team selects is essentially that of domestic companies within the market capitalization range of the Russell 2500™ index. We use common stocks and occasionally preferred stocks, convertible bonds, or ETF's. There is no use of options in this strategy. Initial individual positions in the Small Cap Intrinsic Value strategy are typically between 1%-2.5% and are augmented based on the increased confidence

level in our projections. The sector weightings are determined by the number of individual opportunities and the prospect for reaccelerating earnings within the sector, typically not to exceed a maximum of 25%. A large equity institutional portfolio invested in the Small Cap Intrinsic Value strategy will typically have 40-50 individual holdings. The broader range over time is 35-50 names.

The strategy utilizes the Russell 2500™ and Russell 2500 Value™ Indices as benchmarks. ICM generally requires a minimum investment of \$100,000 to open an individually managed account. ICM reserves the right to waive this minimum.

### **Large Cap Globally Dominant**

The Large Cap Globally Dominant strategy concentrates primarily on companies with market capitalizations in excess of \$5 billion. The majority of investments in the Large Cap Globally Dominant strategy are in companies that sell products or services globally, dominate their industries, and generally have industry leading returns on invested capital coupled with strong balance sheets. The remaining holdings consist of companies that offer opportunistic investment ideas with the potential to grow into globally dominant companies.

The core principal of the Large Cap Globally Dominant strategy is the belief that companies with apparent and sustainable competitive advantages in multiple international marketplaces represent ideal investment candidates. We begin the search for companies appropriate for this strategy with a top down approach involving the identification of attractive sectors and global regions. We then identify securities within the most attractive sectors and global economies, looking primarily for companies with leadership positions in their respective markets. We believe that the exceptional financial strength and global reputations of the multinational companies that we target allow them to leverage lower input costs abroad and establish their brands on a global scale. We feel that by targeting strength and quality, along with a global presence in our investment candidates we can increase the opportunity for outsized and stable returns over time.

ICM's Large Cap Globally Dominant strategy concentrates primarily on global companies with market capitalizations in excess of \$5 billion. When investing in companies domiciled outside the U.S., the Large Cap Globally Dominant strategy typically utilizes ADRs. Investments in

companies domiciled outside of the U.S. may be subject to additional risks. These risks are addressed in further detail in the “equity risk control” section below.

Because liquidity is less of an issue for the Large Cap Globally Dominant strategy, a portfolio will typically have between 30-40 individual holdings. Initial individual positions in the Large Cap Globally Dominant strategy are typically in the range of 1.5% to 3%, not to exceed 4%. Sector weightings in the Large Cap Globally Dominant strategy typically range between 0% and two times the blended benchmark sector weighting for the strategy.

Investments in the Large Cap Globally Dominant strategy may be with companies domiciled outside of the U.S. and therefore traded on a foreign exchange, this strategy may be subject to additional risks. These additional risks may include country specific risk factors such as currency risk, geopolitical risk, foreign policy risk, etc.

The strategy utilizes the S&P 500 and S&P Global 100 Indices as benchmarks. ICM requires a minimum investment of \$100,000 to open an individually managed account. ICM reserves the right to waive this minimum.

### **All Cap Equity**

The All Cap strategy seeks to combine the best aspects of the both the Small Cap Intrinsic Value and the Large Cap Globally Dominant strategies into a strategy which varies the average market cap of the portfolio in response to changing market circumstances. As a result, the range of market capitalizations will extend from \$100 million to several hundred billion dollars.

The All Cap Equity strategy uses the analytical methods of both the Small Cap Intrinsic Value and Large Cap Globally Dominant Equity strategies with an emphasis on each at different times in a perceived market cycle. Both individual strategies have merit for long term investors, but for clients who do not have sufficient financial assets to run multiple equity accounts or for whom a more flexible approach is desirable, the all cap approach is an alternative solution.

The objective of this strategy is to vary the average market cap of the portfolio over a market cycle to take advantage of what ICM believes is the greater appreciation potential of small cap stocks early in a bull market cycle and to raise the market cap in the late stages of a market

cycle in order to better preserve portfolio value in the event of a subsequent decline. ICM believes that over extended periods of time, the small cap value asset class is likely to produce superior returns relative to the larger cap asset class.

The strategy utilizes the Russell 3000® Index as the benchmark. ICM generally requires a minimum investment of \$100,000 to open an individually managed account. ICM reserves the right to waive this minimum.

### **Opportunistic Long/Short**

ICM invests the assets of performance fee accounts using an Opportunistic Long/Short strategy that focuses on securities with market capitalizations between \$50 million and \$100 billion. Short selling and options may be used as a means of offsetting market volatility. The Opportunistic Long/Short strategy utilizes a significant amount of the same research as the Small Cap Intrinsic Value and Large Cap Globally Dominant strategies; however, the Opportunistic Long/Short strategy may also occasionally use companies that are considered too risky for our Small Cap and Large Cap Globally Dominant strategies. Efforts will be made to maximize the benefit from long term capital gains for taxable accounts within the strategy; however, the accounts are more actively managed than our traditional managed accounts and will likely have a considerably larger portion of short term trading.

These accounts may have greater volatility and higher investment risk than other ICM accounts. The strategy utilizes the S&P 500 and the Russell 2000® indices as its benchmarks.

### **International Tactical**

The International Tactical strategy is specifically designed for clients with multiple accounts, who use ICM's asset allocation services. The strategy is intended to complement the Small Cap Intrinsic Value, Large Cap Globally Dominant, and Fixed Income strategies with a mix of individual securities, mutual funds and ETFs. Emphasis is on international investments and wealth preservation investments like precious metals and possibly commodities. The strategy is not intended as a standalone strategy.

**Diversified Income**

The Diversified Income strategy combines several asset classes that are not uniformly impacted by the same economic circumstances, including the possibility of a rise in interest rates. This strategy may use higher yielding stocks, high yield bond funds and ETFs, master limited partnerships, and REITs at various times in anticipation of various economic trends. This strategy is generally not intended to be used in lieu of a bond portfolio but as a complementary approach. The strategy is intended to be low risk, but no assurance can be provided that the strategy will not produce a loss in certain economic circumstances.

ICM will generally utilize the Barclays Capital Government/Credit Bond Index as the benchmark for this strategy. However, depending on specific client goals and circumstances, ICM may use different benchmarks as ICM and the client deem appropriate.

**Enhanced Income**

This is a variation of the Diversified Income strategy outlined above. The Enhanced Income strategy will utilize various equity options strategies to minimize volatility and provide additional income. This strategy is generally limited to accounts of \$300,000 or more.

**Risk of Loss - Equity**

ICM does not use formally structured risk control software. We believe the inherent focus on value investing and the emphasis on thoroughly researched and high-quality investment ideas aids in the construction of lower risk portfolios. In addition to the inherently lower risk profiles of the stocks of companies we typically invest in, we also adhere to the following rules of thumb:

- We attempt to control risk by ensuring sufficient company and industry diversification. Generally a sector is not weighted above 25% of the portfolio, and an individual stock is rarely weighted more than 4% of the portfolio.
- The use of internally generated and disciplined research and price-targeting systems helps minimize negative surprises in individual companies.
- Utilizing traditional quantitative and technical trading methods
- Barring an exogenous domestic or global event, such as a terrorist attack or something similar in nature that shocks the markets in unison, ICM employs a fifteen percent downside principle for individual investment ideas. In other words, when a stock declines below expectations, typically by a fifteen percent rule of thumb, we re-research

the story to reaffirm our commitment. If it is determined that the company will still meet our expectations, we will typically buy more, but if the review does not resolve all of the pertinent questions, the stock will be sold.

ICM's strategy is to invest in individual companies that collectively make up a diversified portfolio. Companies typically have specific risk to their operations that can have an impact on each investment. By performing research in house and analyzing each company on its own merits, we make every attempt to pinpoint potential risks that may impact the performance of that particular investment. Sometimes those risks become greater over time and if the company does not address them adequately we make every attempt to either reduce or exit the position.

The Small Cap Intrinsic Value strategy is, at times, subject to additional risks due to the thinly traded nature of some securities within the market cap range of the Russell 2500™ and Russell 2500 Value™ Indices. The lack of liquidity can produce more volatility when both purchasing and selling a security; it may also create circumstances where more time is needed to fully execute the respective order. This phenomenon can also be enhanced in times when exogenous events impact the markets in unison. With respect to executing the orders to manage this risk in a more fluid manner please refer to the "Trade Allocations: Equity Accounts" section of this Brochure. ICM also attempts to limit the additional liquidity risk by diversifying our investments into companies with higher markets capitalizations and more tradable shares within the Russell 2500™ and Russell 2500 Value™ Indices.

Small value investing tends to have higher volatility especially during periods of severe market decline when investors tend to be more risk averse. The All Cap strategy seeks to address this issue by capitalizing on the investment potential of small cap value stocks when they are particularly depressed after a bear market cycle and to emphasize larger cap globally dominant companies in the later stages of a bull market in order to take advantage of their greater liquidity and reduced volatility. Assessing when an equity market is in its early or late stages is a highly unpredictable effort due to the often emotional and volatile changes in broad investor psychology. ICM will make every effort to time this transition successfully, but there is no assurance that ICM will be successful in that regard.

The Large Cap Globally Dominant strategy sometimes involves investing in companies domiciled outside the U.S. We typically utilize ADRs when investing in such non-U.S. based companies. Investing in these internationally domiciled companies involves taking on additional country-specific risk. Specifically, the risks associated with investing in non-domestic companies include geopolitical risks, policy changes, currency fluctuations, unexpected government nationalizations, etc. We attempt to control these risks by maintaining a diverse portfolio with limited exposures to any single country or region outside the U.S.

### **Methods of Analysis - Fixed Income**

ICM's fixed income approach is based on the premise that the fixed income markets are not standardized and that an active approach can enhance returns and manage risk. ICM uses a balance of quantitative and qualitative management techniques to identify inefficient valuations of market sectors and individual securities, and pursues incremental returns above market performance through a combination of careful security selection, market knowledge, broad market access, and efficient trading. ICM generally requires a minimum investment of \$250,000 to open an individually managed Fixed Income Enhanced Benchmark strategy account and \$500,000 to open an individually managed Municipal Bond account. ICM reserves the right to waive these minimums.

ICM's fixed income research process is a combination of top-down and bottom up research. The top-down process consists of formulating an economic outlook and finding market opportunities. The bottom-up process consists of company analysis, corporate issue selection, individual security selection, and active portfolio management coupled with sell discipline. Further, ICM's fixed income research process entails both a qualitative and quantitative component. From a quantitative perspective, we seek companies with solid financials, acceptable total debt ratios and favorable interest-coverage ratios. Qualitative factors involved in the fixed income investment selection process include an analysis of the specific industry, credit ratings, the individual company's competitive position within the industry and its fundamentals. Reviewable fundamentals include changes in management, cost and debt reduction efforts, and pricing power. As for any investment product, fixed income investments bear certain risks. We attempt to limit our client's risk exposure by conducting sound and detailed research, but not all risks can be eliminated.

ICM operates with an investment team approach. Recognizing that fixed income clients are very different from one another and each client has different investment and income objectives; the investment team, concentrates on overall market and individual company analysis. The portfolio management team typically selects investments from domestic bond offerings greater than \$200 million for corporate bonds and greater than \$50 million for agency bonds. There are no minimum bond issue size requirements for municipal bonds. There is no use of derivatives in this strategy.

A typical fixed income institutional portfolio will have a minimum of 20 or more different names. Individual fixed income positions should not exceed 5% of the total portfolio. ICM's fixed income portfolios are not built around the benchmark sector weights or bond positions. Although constantly aware of the benchmark weightings, we do not measure tracking error as a management tool in the decision making process.

## **Investment Strategies - Fixed Income**

### **Enhanced Benchmark – Aggregate**

This strategy focuses on a total return investment objective using a broad range of U.S. dollar denominated investment grade securities, including mortgage-backed securities. ICM's benchmark for this strategy is the Barclays Capital Aggregate Bond Index. The strategy has a targeted duration correlating to that of the Index, with maturities generally ranging between one and 20 years.

### **Enhanced Benchmark – Intermediate Government/Credit**

This strategy focuses on a total return investment objective using U.S. dollar denominated government and investment grade corporate bonds with intermediate maturities, generally between one and 15 years. ICM's benchmark for this strategy is the Barclays Capital Intermediate Government/Credit Bond Index.

### **Liquidity Management**

This strategy focuses on preservation of capital using U.S. dollar denominated government and investment grade corporate bonds as well as money market securities. ICM's benchmark for the strategy is the Merrill Lynch 1-3 Year Treasury Index. The strategy has a targeted duration correlating to that of the Index, with maturities generally ranging from one to three years.

### **Municipal Bond Management**

ICM's Municipal Bond Management strategy focuses on tax free investment objectives using investment grade municipal bonds that are exempt from federal income tax. ICM regards the Barclays Capital 5-Year Municipal Bond Index as a broad benchmark for this strategy. However, depending on specific client goals and circumstances, ICM uses several different benchmarks for its municipal bond strategy, as ICM and the client deem appropriate.

### **Fixed Income Risk Controls**

Clients should be aware of certain risks involved with investing in fixed income products. Fixed income products bear market risk, interest rate risk, inflation risk, reinvestment risk, and infrequent liquidity and default risk. Markets are cyclical and do not always favor one particular investment. Markets are also subject to shocks – domestic or international, financial, political, or regulatory. Interest rates can change unfavorably and may be impacted by the economic cycle. Inflation can reduce the value of bonds and their income. Changes in interest rates and market conditions can make it difficult to find suitable re-investments if bonds mature or are called. At times, bonds of smaller issues may be thinly traded and a reasonable and fair market price may be difficult to obtain. Lastly, individual bonds (issued by corporations or municipalities) have specific risks to their operations and business models that could adversely affect individual investment.

ICM's strategy is to invest in individual bonds that make up a well diversified fixed income portfolio, often involving more than just one particular fixed income asset class. By performing in-house research and continuously analyzing markets and individual companies (municipalities) we try to highlight potential risks in the near- and long-term. These risks can become greater over time or may not be addressed in an acceptable manner, in which case ICM is prepared to develop an informed and quick exit strategy to avoid further downside risk.

## **Item 9 – Disciplinary Information**

ICM does not have any material facts regarding any legal or disciplinary events that would be material to your evaluation of ICM or the integrity of ICM's management.

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

### **Pension Consultant; Other Investment Advisor**

ICM is the manager and controlling member of ProManage, LLC, the successor of ProManage, Inc. ("ProManage"). ProManage is an investment adviser and pension consultant located in Chicago, Illinois, that is a federally registered investment adviser. ICM and other shareholders of ICM are also members of ProManage. ProManage is engaged by various companies primarily to provide investment advice to those companies' 401(k) retirement plans. ProManage provides investment advice with respect to investments (typically mutual funds) that are offered to participants in those plans.

### **Investment Limited Partnerships**

Koyah Ventures, LLC and Raven Ventures, LLC, affiliates of ICM, are general partners of each investment limited partnership managed by ICM. The Partnerships were formed to invest and trade in the types of securities describe in Item 4 – Advisory Business. Although the Koyah and Raven Investment Limited Partnerships are no longer accepting new capital, ICM continues to manage the private company investments within the existing Partnerships. Koyah Ventures, LLC and Raven Ventures, LLC, affiliates of ICM, are the general partners of each investment limited partnership managed by ICM.

Because ICM engages in an investment advisory business and manages more than one account, there are conflicts of interest over ICM's time devoted to managing any one account and the allocation of investment opportunities among all accounts managed by ICM. ICM attempts to resolve all such conflicts in a manner that is generally fair to all of its clients. ICM may give advice and take action with respect to any of its clients that may differ from advice given or the timing or nature of action taken with respect to any particular client so long as it is ICM's policy, to the extent practicable, to allocate investment opportunities over a period of time on a fair and equitable basis relative to other clients. ICM is not obligated to acquire for any account any security that ICM, its Affiliates or their respective Personnel may acquire for their

own accounts or for the account of any other client, if in the absolute discretion of ICM, it is not practical or desirable to acquire a position in such security for that account. For example, because the Partnerships have a greater risk tolerance than other client accounts, ICM may purchase for them securities that ICM believes carry greater risk before ICM purchases securities of the same class for other clients, or ICM may not purchase those securities for other clients.

#### **Item 11 – Code of Ethics**

ICM has adopted a Code of Ethics for the firm. ICM ascribes to the highest standards of ethical 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 employees of ICM must acknowledge the terms of the Code of Ethics annually and as amended.

The Code of Ethics is designed to assure that the personal securities transactions, activities and interests of the employees of ICM will not interfere with (i) making decisions in the best interest of advisory clients and (ii) implementing such decisions while, at the same time, allowing employees to invest for their own accounts. Under the Code certain classes of securities have been designated as exempt transactions, based upon a determination that these would materially not interfere with the best interest of ICM's clients. In addition, the Code requires pre-clearance of many transactions, and restricts trading in close proximity to client trading activity. Nonetheless, because the Code of Ethics in some circumstances would permit employees to invest in the same securities as clients, there is a possibility that employees might benefit from market activity by a client in a security held by an employee. Employee trading is continually monitored under the Code of Ethics, and to reasonably prevent conflicts of interest between ICM and its clients.

ICM and its affiliates (affiliates include but are not limited to ProManage, LLC, Koyah Ventures, LLC and Raven Ventures, LLC and are collectively referred to herein as "Affiliates"), and their respective managers, members, shareholders, directors, officers and employees (collectively, "Personnel") may invest personally in securities of the same classes as are purchased for ICM's

clients and may own securities of issuers whose securities subsequently are purchased for ICM's clients. Based on personal investment considerations, ICM, its Affiliates and their respective Personnel also may buy or sell specific securities for their own accounts that ICM does not deem appropriate to buy or sell for clients.

ICM may cause a client to purchase securities of issuers that another client (including the Partnerships), ICM, its Affiliates or their respective Personnel may have purchased on terms different from, and more favorable than, those on which ICM may purchase them for the client.

In addition, ICM may purchase or sell for clients securities of companies that:

- The Partnerships and/or ICM personnel have invested in as a private placement; or
- Have engaged ProManage to provide investment advice to their employees regarding their 401(k) plans.

ICM, its Affiliates and their respective Personnel also may purchase and sell those securities for their own accounts. These relationships create conflicts of interest. ICM and its Affiliates have adopted policies and procedures designed to prevent and detect insider trading. In addition, ICM and its Affiliates, other than ProManage, have also adopted a Code of Ethics policy and a Compliance Manual (collectively the "Policies") to address conflicts of interest or perceived conflicts of interest arising out of the business activities of ICM and its Affiliates and personal securities transactions by their Personnel. ProManage and its Personnel generally do not have any contact with Personnel of ICM and its other Affiliates, regarding ICM trading or investment matters. Therefore, ProManage and its Personnel are not subject to the Policies, however ProManage has its own policies and procedures relating to insider trading and employees' personal securities transactions.

Under the Policies, Personnel must generally pre-clear their personal securities transactions with a designated employee of ICM and may not purchase or sell securities, or options and other derivative instruments the value of which is derived from those securities, if the securities are on the restricted list maintained by ICM.

The Policies are intended to prevent and detect insider trading. Accordingly, if ICM Personnel become knowledgeable of an issuer's inside information as a result of investment activities of the Partnerships, activities conducted on behalf of ICM's Affiliates or otherwise, ICM Personnel

are instructed not to place trades in the issuer's securities for client accounts or their own accounts during the time period that they are in possession of the inside information.

Further, the Policies are designed to restrict physical access to material nonpublic information, to Personnel who need to know such information to perform their duties, to prohibit Personnel from communicating material nonpublic information to third parties, and to Personnel who do not need to know the information.

Clients of ICM and ProManage may also include issuers of publicly traded securities and/or the retirement plans of those issuers. ICM may have an incentive to invest the assets of its other clients in the securities of those issuers which may conflict with ICM's fiduciary duty to make investments on behalf of its other clients that are in their best interests. ICM will recommend or purchase for a client the securities of a company that is also a client of ICM and/or its Affiliates only if ICM believes that the acquisition is appropriate for the client to whom it is made and in that client's best interest.

ICM may make charitable contributions to entities that are ICM clients or may be affiliated with ICM clients.

### **Privacy Policy for Individual Clients**

ICM Asset Management, Inc. ("ICM") is committed to protecting its clients' privacy. To conduct regular business, ICM may collect nonpublic personal information about its clients from sources such as:

- Information reported by clients on applications or other forms clients provide to ICM.
- Information about clients' transactions with ICM, its affiliates, or others.
- Conversations between clients and our representatives.

ICM shares nonpublic information solely to service client accounts. ICM does not disclose any nonpublic personal information about its clients or former clients to anyone, except as permitted by law. If a client decides to close the client's account(s) with ICM or becomes an inactive client, ICM will continue to adhere to its privacy policy and practices with respect to that client as described in this notice.

### **Information Safeguarding**

ICM internally safeguards clients' nonpublic personal information by restricting access to that information only to ICM employees. ICM employees provide products or services to clients and need access to clients' information to service their accounts. In addition, ICM maintains physical, electronic, and procedural safeguards that meet federal standards to guard clients' nonpublic personal information.

Clients or prospective clients may request a copy of the firm's Code of Ethics by contacting ICM's Chief Compliance Officer, Lisa House, at 800.488.4075 or [clientservices@icmasset.com](mailto:clientservices@icmasset.com).

### **Item 12 – Brokerage Practices – Soft Dollars - Client Referrals – Directed Brokerage**

ICM has complete discretion over the selection of the broker to be used and the commission rates to be paid, unless otherwise directed by a client. In selecting a broker for any transaction or series of transactions, ICM may consider a number of factors, including, for example:

- The broker's ability to help ICM achieve best execution;
- The availability of an offsetting active buyer when ICM is selling and a corresponding seller when ICM is buying; the firm's ability to find a contra party on a specific transaction;
- The capacity to trade without disturbing the market by minimizing market impact;
- The ability to execute "step-out" transactions (see discussion below);
- The overall direct net economic result to client accounts;
- The availability of the broker to stand ready to execute possibly difficult transactions in the future;
- The ability to effect the transaction where a large block or other complicating factors are involved;
- The firm's electronic transaction processing capability;
- The financial strength and stability of the broker; and
- Other matters involved in the receipt of brokerage and research services without having to demonstrate that any such factor directly benefits an individual client.

Additionally, ICM may purchase from a broker or allow a broker to pay for certain research and brokerage services, economic and market information, portfolio strategy advice, industry and

company comments, technical data, recommendations, general reports (daily, weekly, or monthly), consultations, company performance measurement data, data on issuers, news wire charges, access to analyst conference calls or meetings, access to research conferences, conference call transcripts, order routing systems, order management systems, electronic trade routing systems, analysts earning estimates, portfolio management systems, quotation services, computer software, and the like (a "commission sharing" relationship). As of January 1, 2011 ICM paid all or a portion of the following services under third party commission sharing arrangements: Bloomberg and related feeds and entitlements (AMEX, Dow Jones Newswires, NYSE, NASD, CBOT); AutEx, Thomson Street Events, TheMarkets.com, and Charles River Development.

ICM may allocate the costs of products used for both research/brokerage and non-research/brokerage purposes, between their research/brokerage and non-research/ brokerage uses, and use commission sharing arrangements to pay only for the portion allocated to research/ brokerage uses. ICM may pay a brokerage commission to a broker in excess of that which another broker might charge for the same transaction in recognition of the value of the brokerage or research provided by that broker. In such a case, however, ICM determines in good faith that such commission is reasonable in relation to the value of such brokerage or research, viewed in terms of either the specific transaction or ICM's overall responsibilities to the portfolios over which ICM exercises investment authority. An account may, however, pay higher brokerage commissions than are otherwise available. In addition, the research and other benefits resulting from ICM's brokerage relationship may benefit all accounts managed by ICM including both equity and fixed income accounts or ICM's operations as a whole, including accounts that have directed ICM to use a broker that does not provide commission sharing services.

ICM places client trades through brokerage firms with which it has established commission sharing arrangements. ICM's client trading generates credits on behalf of ICM with the brokerage firms that in turn, are used to pay for research and brokerage products and research and brokerage services provided by third-party vendors to ICM.

ICM's relationships with brokerage firms that provide commission sharing services may influence ICM's judgment and create conflicts of interest, both in allocating brokerage business

between firms that provide commission sharing services and firms that do not, and in allocating the costs of mixed-use products between their research and non-research uses. These conflicts of interest may be particularly influential to the extent that ICM uses commission sharing arrangements to pay expenses it would otherwise be required to pay itself.

Brokers that ICM selects to execute client securities transactions may from time to time refer clients to ICM. This creates a conflict of interest in that ICM may have an incentive to refer its clients' brokerage business to brokers to which it might not otherwise direct its brokerage transactions. However, it is ICM's policy not to place discretionary trades with brokers in exchange for client referrals, and ICM regularly reviews the commission rates paid by its discretionary clients to determine that they are competitive.

### **Directed Brokerage**

If a client directs ICM to use a specific broker (a "directed brokerage account"), it is the client's responsibility to negotiate commission rates and other transaction costs with that broker. ICM is not authorized to, and will not, negotiate such rates and costs. Clients in wrap fee programs should be aware that ICM will cause all transactions for participants in a wrap fee program to be executed with the sponsoring broker. As a result, ICM treats wrap fee arrangements as directed brokerage accounts. A client that has a directed brokerage account may not obtain rates as low as it might obtain if ICM had discretion to select brokers other than those chosen by the client and the client may not participate in aggregate securities transactions and may trade after such aggregate transactions and receive less favorable execution. Also, certain brokers require that trade orders be sent via facsimile machine (fax) and e-mail rather than more traditional means such as the telephone or by means of a FIX routing network. Trade orders sent by fax are more subject to error and delay which may adversely impact client trades. As a result, clients who direct their trades to a specific broker should review the broker's trading practices. For fixed income securities, the broker selected by the client may not have available securities that ICM might buy for the client's account if ICM had the discretion to select brokers for that account. Additionally, ICM may not obtain the same prices from directed brokers as it might obtain from brokers that it has the discretion to select.

If a client has chosen a directed brokerage account, the client should periodically review and determine whether in light of all the services provided by the broker, including but not limited to,

manager selection, performance measurement and custodial services, the brokerage commissions rate and/or mark-ups or mark-downs charged by the broker (i) are in the best interests of the client, and (ii) if the client is subject to the Employee Retirement Income Security Act of 1974 as amended (ERISA), are for the exclusive purpose of providing benefits to participants and beneficiaries of the client, and will not constitute, or cause the client to be engaged in a "prohibited transaction" as defined in ERISA. A client may choose or change the broker it directs ICM to use at any time on written notice to ICM.

### **Aggregated Securities Transactions**

ICM may aggregate securities sale and purchase orders for a client with similar orders being made at the same time for other accounts managed by ICM, or with accounts of Affiliates and Personnel. In an attempt to obtain the best price for the greatest number of clients, ICM generally executes aggregate orders before individual orders. If a client's order is aggregated with other orders, the client will be charged or credited, as the case may be, the average transaction price per share for all securities purchased or sold for that order through a particular broker on the same day. If an aggregate order is executed through more than one broker, ICM will determine for each such broker the average price per share for the part of the order executed through that broker. Each client that participates in the order will receive the average price per share calculated for one of those brokers allocated as described in the "Trade Allocations" Section. As a result of ICM's aggregation of orders, the price a particular client pays or receives for the securities purchased or sold may be less favorable to the client than it would be if similar transactions were not being executed concurrently for other accounts.

If the directed broker for a directed brokerage account or the sponsoring broker for a wrap account permits such aggregation without notice, ICM at its discretion may aggregate an order for that account with other orders executed through a broker other than the sponsoring or directed broker. The executing broker then waives any execution costs. This is commonly known as a "step-out." Clients with directed brokerage pay only the commission or fee charged by their broker. They do not pay an additional fee or commission to the executing broker.

ICM generally does not execute step-outs under the following circumstances:

- ICM does not expect there to be sufficient shares in an aggregate order to allocate to both the discretionary accounts and the directed or wrap accounts that would participate in the order;
- The directed or sponsoring broker with respect to an account does not accept step-outs without notice;
- ICM believes that the directed or sponsoring broker does not have the administrative capabilities to process the step-out efficiently or timely;
- An insufficient number of clients have directed ICM to use a broker or have selected a wrap fee arrangement, so that it is not economically feasible for ICM to aggregate orders for clients who choose that broker or wrap fee arrangement;
- A small order that does not impact the market; and
- The additional costs of executing a step-out offset the advantages of the step-out.

ICM can execute step-outs for clients that direct it to use the following brokers: Wells Fargo Advisors, Robert W. Baird & Co., Inc.; Charles Schwab & Co., Inc.; Citigroup Capital Markets; D. A. Davidson & Co.; Pershing; RBC Wealth Management; Morgan Stanley; Wachovia Securities; UBS Paine Webber; Ragen McKenzie, Inc.; and Stifel Nicolaus. For fixed income trades, ICM can execute fixed income trades for clients that direct it to use the following brokers: Smith Barney and Merrill Lynch with brokers other than the designated directed broker. Other firms may be added, and these lists may be amended from time to time based on changing client and trading relationships. These lists are as of December 31, 2011.

Accounts that do not participate in aggregate orders as described above will trade after aggregate orders and may receive less favorable execution, particularly if market movements work against the client. This rotation of accounts includes the MDAs that ICM manages to ensure that no account, broker or MDA is continually advantaged or disadvantaged over any other account. Each individual MDA program holds its own place in the rotation and those programs are treated like any other account at ICM. However, accounts traded after aggregate orders are generally traded on a rotational basis so that no one account is continually advantaged or disadvantaged over other accounts that do not participate in aggregate orders.

### **Trade Allocations**

Allocations of securities purchased or sold in aggregate orders are made in a manner that ICM considers equitable and consistent with its fiduciary obligations to all its clients.

### **Equity Accounts**

Generally, securities of large capitalization globally dominant companies are available in such sufficient quantities that ICM can fill most aggregate orders for those securities without the need for allocation. However, because the securities of the small intrinsic capitalization companies often are thinly traded, ICM is not always able to execute enough of these securities to completely fill aggregate orders on the same day. If an order is partially filled, ICM generally allocates the securities purchased or sold either pro rata, randomly, or on a rotation basis based on the participation of each client account in the order. The order may be allocated on a different basis, provided that, over time, all client accounts receive fair and equitable treatment. If ICM is not able to allocate a partially filled order for equity securities of small intrinsic capitalization companies on a pro rata, rotational or random basis, those orders may be allocated first to client trade groups and to clients whose holdings of those securities deviate the most from the target amounts that ICM has established for those accounts. Other permissible reasons for allocating equity securities purchased or sold in an aggregate order on a different basis include:

- The participating accounts have different tax positions;
- The participating accounts have different investment strategies;
- The participating accounts have different risk parameters;
- The commission costs of allocating small quantities of securities to certain participating accounts would be too great;
- The position size requirements of the participating accounts relative to the amount of available securities; and
- The amount of cash in each of the participating accounts.

ICM does not engage in equity principal or agency cross transactions.

### **Fixed Income Accounts**

Generally, United States Government securities purchased for fixed income accounts are available in such sufficient quantities that ICM can fill most aggregate orders for those securities without the need for allocation. However, ICM is not always able to completely fill aggregate orders for corporate and municipal bonds and mortgage-backed securities because those

securities trade in secondary and/or auction markets that are subject to limited liquidity, availability and price sensitivity. If an aggregate order for fixed income securities is partially filled, ICM may allocate the securities purchased and sold pro rata based on the participation of each client account in the order. However, when a pro rata allocation would result in inefficient and inappropriate positions for accounts, the order may be allocated on a different basis, provided that, over time, all client accounts receive fair and equitable treatment. Permissible factors for consideration when allocating fixed income securities purchased or sold in an aggregate order on a different basis than pro rata include:

- The amount by which holdings of the securities in the participating accounts deviate from the targeted portfolio characteristics ICM has established for the account;
- The diversification in the participating accounts with respect to the securities, the issuers of the securities, and the sector to which the securities relate;
- The position size requirements of the participating accounts relative to the amount of available securities; and
- The amount of cash in each of the participating accounts.

From time to time, it may be appropriate for one client or group of clients to purchase a particular security and another client or group of clients to sell the same security. In that event, at the discretion of the portfolio management team, a buy and sell may be placed through the same broker to affect the sale and purchase. This is done with a goal to minimize market impact of the transaction and improve the price received by both sides of the trade. A discounted commission or mark-up is negotiated with the broker and the price is fixed between the bid/asked quotations at the time. The trade is placed through a broker. The benefit of a reduced commission or mark-up payable to the broker applies to both the buyer and seller of the security. Such "cross trades" are not made for ERISA accounts.

### **Item 13 – Review of Accounts**

Portfolios are under the continuous review of the portfolio management team for changes in market conditions, individual client circumstances, events affecting a particular security, and changes in the political/economical environment. Additionally, portfolios are reconciled on a month end basis to the position and cash balances of the custodian on record.

ICM's portfolio management team manages the Small Cap Intrinsic Value, Large Cap Globally Dominant, All Cap, Diversified Income, Enhanced Income and the performance incentive fee opportunistic Long/short portfolios utilizing a portfolio modeling system that enhances their ability to provide continuous investment management as opposed to a periodic review. The portfolio modeling system provides suggested adjustments for client accounts based on various factors including, but not limited to, investment objectives, phasing in or out of the individual investments to accommodate deposits and withdrawals, gradual transition of deposited securities to ICM-favored securities, income requirements, tax considerations, and ethical or social investment guidelines.

Additionally, ICM's fixed income portfolios are reviewed by the portfolio management team taking into consideration client objectives, risk parameters, portfolio concentrations, and volatility.

For participants in 401(k) plans using Vanguard Fiduciary Trust Company ("Vanguard") as a custodian, ICM provides asset allocation among the mutual funds available under the plans. As a result of Vanguard's technological limitations ICM can only review allocations percentages (but not individual transactions). As a result, ICM reconciles positions and total assets on a quarterly basis. However, ICM cannot reconcile individual transactions to the Vanguard statements.

Additionally, on a quarterly basis, clients generally receive a written statement via regular mail which includes the following reports: 1) a portfolio summary, 2) a portfolio appraisal, 3) a purchase and sale report and, 4) a quarterly performance history. Clients may also receive periodic letters from the portfolio management team discussing ICM Asset Management, Inc.'s ("ICM") outlook for current and future market conditions. For taxable accounts, annual realized gain and loss reports are provided during the third or fourth calendar quarter or upon request; income and expense (interest, dividends, and fees) reports are provided upon request. Included in the quarterly report disclosure is a request for clients to advise ICM if there have been any material changes to the clients' investment objective, financial condition, and/or prior investment instructions. In an effort to capture any material changes that were not disclosed throughout the year to ICM by the client; ICM sends an annual Client Suitability Questionnaire requesting the client return said questionnaire in the event material changes occurred.

Limited Partners in each affiliated partnership to which ICM is an investment advisor (each, a "Partnership") receive an annual report containing audited financial statements of the Partnership, including a balance sheet and statements of income and partners' equity. The limited partners of each Partnership also are furnished appropriate tax information each year.

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

ICM engages solicitors to whom it pays cash or a portion of the advisory fees paid by clients referred to it by those solicitors. In such cases, this practice is disclosed in writing to the client and ICM complies with the other requirements of Rule 206(4)-3 under the Investment Advisers Act of 1940, as amended, to the extent required by applicable law.

ICM may recommend that clients establish brokerage accounts with the Schwab Institutional division of Charles Schwab & Co., Inc. (Schwab), a registered broker-dealer, or other brokerage firms to maintain custody of clients' assets and to effect trades for their accounts. ICM is independently owned and operated and not affiliated with Schwab or any other brokerage firm. Schwab provides ICM with access to its institutional trading and custody services, which are typically not available to Schwab retail investors. These services generally are available to independent investment advisors on an unsolicited basis, at no charge to them so long as a total of at least \$10 million of the advisor's clients' assets is maintained in accounts at Schwab Institutional and is not otherwise contingent upon ICM committing to Schwab any specific amount of business (assets in custody or trading). Schwab's services include brokerage, custody, research and access to mutual funds and other investments that are otherwise generally available only to institutional investors or would require a significantly higher minimum initial investment.

For ICM's clients' accounts maintained in its custody, Schwab generally does not charge separately for custody but is compensated by account holders through commissions or other transaction-related fees for securities trades that are executed through Schwab or that settle into Schwab accounts.

Schwab and other brokers also make available to ICM other products and services that may benefit ICM, but may not benefit its clients' accounts. Some of these other products and services assist ICM in managing and administering clients' accounts. These may include

software and other technology that provide access to client account data (such as trade confirmations and account statements); facilitate trade execution and allocation of aggregated trade orders for multiple client accounts; provide research, pricing information and other market data; facilitate payment of ICM's fees from its clients' accounts and assist with back-office functions, recordkeeping and client reporting. Many of these services generally may be used to service all or a substantial number of ICM's accounts, including accounts not maintained at Schwab Institutional.

Schwab Institutional also makes available to ICM other services intended to help ICM manage and further develop its business enterprise. These services may include consulting, publications and conferences on practice management, information technology, business succession, regulatory compliance and marketing. In addition, Schwab may make available, arrange and/or pay for these types of services rendered to ICM by independent third parties. Schwab Institutional may discount or waive fees it would otherwise charge for some of these services or pay all or a part of the fees of a third party providing these services to ICM. While as a fiduciary, ICM endeavors to act in its clients' best interests; ICM's recommendation that clients maintain their assets in accounts at Schwab may be based in part on the benefit to ICM of the availability of some of the foregoing products and services and not solely on the nature, cost or quality of custody and brokerage services provided by Schwab, which may create a potential conflict of interest. Similar services may also be provided by other brokerage firms recommended to clients by ICM.

ICM pays a cash marketing incentive to certain employees based on new clients that they obtain.

#### **Item 15 – Custody**

Clients should receive at least quarterly statements from the broker dealer, bank or other qualified custodian that holds and maintains your investment assets. ICM urges you to carefully review these custodial statements and to compare your 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.

The limited partnerships are advisory clients of ICM, and thereby ICM is deemed to have custody of the limited partnerships' funds and securities.

#### **Item 16 – Investment Discretion**

ICM has full discretion over the selection of securities and quantities to be bought and sold, within the parameters of the clients' investment objective, without obtaining specific client consent. Nevertheless, a client may impose certain investment restrictions on the client's account by giving ICM written notice, and may change those restrictions by written notice, which notice is deemed effective when confirmed received by ICM. Such investment restrictions could adversely affect the account's performance. ICM reserves the right to reject or terminate a client if it believes the restrictions imposed by the client are so restrictive that the account cannot achieve its stated investment objectives. However, prior to such rejection or termination, the client will be given the opportunity to modify the restrictions.

#### **Item 17 – Voting Client Securities**

ICM has adopted policies and procedures to ensure that it votes client proxies in the best interest of clients who have delegated their proxy voting responsibility to ICM.

ICM has established a Proxy Voting Committee to make voting decisions. Brokers and custodians have been notified and are required to forward all proxy materials to ICM in hard copy format. Further, ICM's investment management team will be responsible for providing research reports to the Committee for issues to be voted upon. ICM will be responsible for maintaining all proxy related material such as voting records, research and proxy voting committee minutes. If clients wish to rescind this delegation of voting authority they must contact their broker/custodian as well as notify ICM of the change; at this point proxy materials would be delivered to clients from the broker/custodian, transfer agent, or other party. Clients should note that events causing the broker/custodian to require new paperwork for an existing account may cause the proxy voting authority to default back to the client.

ICM will not be responsible or liable for failing to vote any proxies where ICM did not receive the proxies or related shareholder communications in a timely manner.

Given the size and nature of ICM's business it is rare when a conflict of interest arises. Further, by consistently applying the guidelines across proxy proposals potential conflicts of interest are minimized. However, in the event that a conflict of interest is identified the proxy voting committee will abstain.

ICM bases its final voting decisions on a pre-established set of policy guidelines which take into account the objective analysis of the economic interests of shareholders. This process helps ensure that proxies are voted in the best interests of clients and minimizes conflicts of interest in voting decisions.

To obtain a complete copy of ICM's Proxy Voting Principles and Guidelines, and/or information regarding how ICM voted proxies with respect to securities held in client accounts, clients may contact ICM's Compliance Department at:

ICM Asset Management, Inc.  
Attn: Compliance Department  
601 W. Main Avenue, Suite 900  
Spokane, WA 99201  
Phone: 800.488.4075  
E-mail: [clientservices@icmasset.com](mailto:clientservices@icmasset.com)

ICM's Proxy Voting Principles and Guidelines Statement is available on ICM's Web site ([www.icmasset.com](http://www.icmasset.com)) in the "Legal Disclosures" section.

#### **Item 18 – Financial Information**

ICM 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.