

**Part 2A of Form ADV: *Firm Brochure***



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**This brochure provides information about the qualifications and business practices of Advisors Asset Management, Inc. (hereinafter “AAM” or “firm” or “we”). If you have any questions about the contents of this brochure, please contact us at (888 ) 883 - 2663 or at [smaadministration@aam.us.com](mailto:smaadministration@aam.us.com) . The information in this brochure has not been approved or verified by the United States Securities and Exchange Commission or by any state securities authority.**

**Additional information about AAM is available on the SEC’s website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov). You can search this site by a unique identifying number, known as a CRD number. The CRD number for AAM is 46727.**

**Item 2. Summary of Material Changes**

**This Brochure has been updated since the 3/27/2012 version to reflect certain changes related to Advisors Asset Management Inc.'s (AAM) having entered into an advisory agreement to provide investment advisory services to an open-end registered investment company.**

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**Item 4. Advisory Business**

AAM Holdings, Inc. is the parent company of Advisors Asset Management, Inc. (AAM) and is primarily owned by current and former employees of Advisors Asset Management, Inc. and affiliated entities. AAM is a registered broker dealer, member FINRA and SIPC, and SEC registered investment adviser. AAM offers individual account advisory services under the business name Advisors Asset Management, Inc. and AAM's Managed Accounts department represents the registered investment adviser within the firm.

AAM provides portfolio supervisory and evaluation services to AAM-sponsored unit investment trusts ("UITs") registered under the Investment Company Act of 1940. The terms and conditions of each UIT are set forth in their offering and governing documents. UITs are not managed funds and their portfolios are designed to remain relatively fixed. However, trusts may buy or sell securities under limited circumstances to pay expenses, issue additional units or redeem units, in limited circumstances to protect the trust, to make required distributions or avoid imposition of taxes on the trust or as otherwise permitted by the trust agreement including in cases where significant credit issues arise or where public tender offers are made with respect to portfolio securities. AAM's portfolio supervisory services with respect to AAM sponsored UITs consists of monitoring UIT portfolios for such events and making determinations with respect to such portfolios in a manner consistent with the investment objective of the UIT, governing documents of the UIT and applicable law. Where AAM acts as evaluator to a UIT, its evaluation services consist of the valuation of each security in the trust's portfolio on a daily basis and providing such valuations to the trustee to calculate the UIT's daily net asset value. AAM may use certain independent pricing services in the course of providing evaluation services to the UITs.

AAM has been in business since 1979.

Listed below are the firm's principal shareholders (i.e., those individuals and/or entities controlling 25% or more of this company).

- AAM Holdings, Inc.

Investment Management Services to Separately Managed Accounts (hereinafter referred to as "SMA" in the remainder of this document)

AAM provides continuous advice regarding investment of client funds based on the individual needs of the account holder. Once the particular goals and objectives of an account holder are established, AAM develops a personal investment policy and manages the portfolio based on that policy. AAM will manage advisory accounts on a discretionary basis. Account supervision is guided by account holder specific factors such as prior investment experience, current investments, income needs, risk tolerance, income objectives, and other relevant data as obtained directly from the client in our Primary Advised relationships and from the Adviser on our Sub-Advised accounts.

For our direct advised accounts, through personal discussions and a comprehensive information gathering process, each client's investment goals and objectives are established. From this information, AAM will work with the client to determine which portfolio is suitable to their particular circumstances. AAM may, if appropriate, suggest modifications to the model or an allocation among two or more of the models to more adequately address the client's individual needs. AAM provides clients the opportunity to place reasonable restrictions on the types of investments to be held in the client's account. However AAM reserves the right to refuse or decline the request. Clients will retain individual ownership of all portfolio securities. In addition to the client specific factors mentioned in the preceding paragraph, account supervision is also guided by the stated objectives of the client (i.e., maximum capital appreciation, growth, income, or growth and income).

For our sub-advised accounts, AAM will work directly with the primary advisor. The primary advisor shall be solely responsible for determining the suitability of Sub-Advisor's investment management services and the related investment strategy(ies) for each client and each account.

AAM offers account management services through portfolios invested in a variety of fixed income instruments, equity, and may offer unit investment trusts on a discretionary basis. Periodically, AAM may recommend purchases and sales in the account based on shifts in the market, fluctuations in interest rates, updates in customer suitability, goals, or financial objectives, and other related changes.

AAM develops and manages investment portfolios based on the investment policies of our clients, and these portfolios may consist of one of the following, as appropriate: individual equities, mutual funds, warrants, corporate debt securities, commercial paper exchange traded funds (ETFs), bonds, municipal debt securities, structured products, notes and/or other investment products. AAM will allocate the client's assets among various investments taking into consideration the overall investment policy of the client.

The mutual funds and ETFs will be selected on the basis of any or all of the following criteria as they relate to the security or its underlying index: performance history; industry sector; management style and philosophy; track record; investment objectives; composition and focus, and; fee structure and expenses. Weighting among funds and market sectors is determined by the appropriate model.

In order to ensure that AAM's initial determination of an appropriate portfolio continues to be suitable and that the client's account continues to be managed in a manner fitting the client's financial circumstances, AAM will maintain client suitability information in the client's file as provided by the end-client in our primary advised relationships and by the adviser in our sub-advised relationships. On a quarterly basis, AAM will notify Investment Management Services clients in writing to request updated information regarding the client's financial situation and investment objectives and whether the client wishes to impose or modify existing investment restrictions. In addition, AAM will

contact our primary advised clients at least annually to determine whether there have been any changes in the client's financial situation and whether the client wishes to impose investment restrictions or modify existing restrictions.

While the underlying securities in Investment Management Services client accounts are continuously monitored, each client's account is reviewed at least quarterly and rebalanced as needed. If AAM believes that a reallocation is necessary, for example, if a particular investment is performing inadequately, or if AAM believes that a different investment is more suitable for the portfolio's goal, then AAM will reallocate the client's account in accordance with the discretionary authority granted by the client.

AAM currently offers the investment portfolios described below as the primary investment strategy offerings for its separately managed account program. However, AAM also manages accounts utilizing other investment strategies and securities and AAM may, from time-to-time, construct customized portfolios upon request and at its discretion. These other investment strategies and/or securities may include, but are not limited to, Convertible Debt, Structured Notes, Reverse Convertible, Derivative Debt, Inflation Linked Securities, Variable Rate Securities and Mortgage Securities.

#### WRAP Fee Programs

AAM serves as an investment manager to SMA accounts that are placed with us through various Wrap Fee Programs. AAM is not a WRAP Sponsor.

#### Investment Portfolios

Below, please find information on AAM's Core Strategies for SMA accounts:

#### **Fixed Income Portfolios**

Overall, AAM makes economic projections for fixed interest rate instruments. Based on these projections, AAM develops asset allocation targets for its portfolio templates. After developing target asset-class allocations, AAM uses a top-down and or bottom-up approach to select the specific assets, as appropriate, to purchase in the account. Diversification among issuers and asset classes are two of the design parameters when making allocation determinations. For each portfolio, AAM may from time to time elect to replace a benchmark than that which is stated below, based on its sole discretion and professional judgment. Individual portfolios may contain positions inconsistent with the current preferred allocation for a given investment discipline. At the Manager's discretion, such positions may be left in the account if the Manager feels it to be in the best interest of the account.

The asset allocation guideline for issuers other than U.S. Government, its agencies or mortgage related and other asset-backed securities (where the issuer is not primarily liable for repayment of principal and interest) and municipal securities (taxable and/or tax

exempt) is generally 10% but may be more or less depending upon individual account circumstances (unless client account parameters dictate otherwise). However, preferred exposure is in the 5% range, but could be increased when deemed appropriate.

*Asset Classes* – The primary asset classes are Treasury, U.S. Agencies, Municipal securities, Mortgage and Asset Backed and Corporate Obligations. Other asset classes are municipal securities, privately issued (144) securities, equities, closed-end funds, structured notes, reverse convertible notes, foreign/emerging market U.S. dollar denominated debt, Loan Participation and Assignments, Variable and Floating Rate Securities, Event-Linked Bonds, Convertible and Equity securities, Repurchase Agreements, When-Issued Securities and Derivatives. The account may also include other types of securities and use a variety of investment techniques and strategies, which are not described above.

In the case of tax exempt investments, the account will invest primarily in obligations of state and local municipalities, their agencies and U.S. Territories and other tax exempt investments which may include privately issued (144) securities, closed-end funds, auction rate paper, variable and floating rate securities, notes and municipal futures. The account may invest in "private activity" bonds whose interest is a tax-preference item for purposes of the federal alternative minimum tax ("AMT").

The following Fixed Income strategies are currently managed at AAM:

**Conservative Taxable** – *High Quality Taxable Fixed Income Strategy*

**Core Plus Taxable** – *Investment Grade Taxable Fixed Income Strategy*

**Credit Opportunities Taxable** – *High Yield Fixed Income Strategy*

**Mortgage Investment Portfolio** – *Securitized Fixed Income Strategy*

**Short Term Tax Exempt** – *Investment grade, short maturity*

**Core Tax Exempt** – *Investment Grade, intermediate maturity*

### **Equity Portfolios**

AAM offers a number of equity strategies that use separate criteria for investment. In general, our portfolios should be considered to be concentrated as to the number of positions held in any particular strategy. Our quantitative strategies are designed to offer a strict buy and sell discipline based on factors that have historically been attractive to future investors. Each of these strategies are constrained to common stock investment, and are fully invested at all times. While our dividend focused strategies are broadly diversified by industry sector, other quantitative strategies may not be. AAM's technical strategy will seek attractive stocks in a limited selection of sectors deemed to be superior by management. Cash may be used to limit overall portfolio volatility in this strategy.

The following Equity strategies are currently managed at AAM:

**Peroni Method** – *Growth; Multi-cap, unconstrained*

**High 50 Dividend** – *A diversified all cap domestic dividend strategy with a focus on high current income and growth of income*

### **Mutual Funds**

AAM provides investment advisory services pursuant to an investment advisory agreement to AAM/Bahl & Gaynor Income Growth Fund (the "Fund"), a series of Investment Managers Series Trust, a Delaware statutory trust and open-end registered investment Company. AAM's investment advisory services to the Fund include (i) the selection, oversight, termination and replacement of sub-advisors, (ii) ensuring quality control of the sub-advisor's investment process; and (iii) monitoring and measuring the Fund's risk and return against appropriate benchmarks and peers. Day-to-day management of the Fund's portfolio, selection of the Fund's portfolio investments and supervision of its portfolio transactions (subject to the general oversight of the Fund's Board and AAM) have been delegated to Bahl & Gaynor, Inc. pursuant to a sub-advisory agreement between AAM and Bahl & Gaynor, Inc. The investment advisory services provided by AAM to the Fund are governed by the terms of the prospectus, AAM's advisory agreement with the Fund, and AAM's sub-advisory agreement with Bahl & Gaynor, Inc.

### **Assets Under Management**

As of 12/31/2011 we were actively managing \$385,528,455.00 of clients' assets on a discretionary basis

## **Item 5. Fees and Compensation**

### **Investment Management Services to SMAs**

The annual fee for portfolio management services to SMAs will be charged as a percentage of assets under management, according to the following schedule:

### **AAM Portfolios**

- 1) **Conservative Taxable** – Fees for this portfolio range from 35bps to 45bps.
- 2) **Core Plus Taxable** – Fees for this portfolio range from 35bps to 45bps.
- 3) **Credit Opportunities Taxable** – Fees for this portfolio range from 35bps to 45bps.
- 4) **Mortgage Investment Portfolio** – Fees for this portfolio range from 100bps to 110bps.
- 5) **Short Term Tax Exempt** – Fees for this portfolio range from 30bps to 40bps.
- 6) **Core Tax Exempt** – Fees for this portfolio range from 30bps to 40bps.



- 7) **Peroni Method** – Fees for this portfolio range from 60bps to 70bps.
- 8) **High 50 Dividend** – Fees for this portfolio range from 60bps to 70bps

NOTE: all fees referenced above reflect our standard ranges. Some accounts may exist with fees that fall outside our standard range.

#### Sub-Advisory Relationship

As indicated in Item 4 above, AAM may also provide Investment Management Services as a sub-adviser; in other words, a client may engage an independent investment adviser (the "Sponsor") which, in turn, will engage AAM (as well as other investment advisers) to provide portfolio management services to all or part of its clients' portfolios. In this situation, AAM will receive a portion of the fee charged by the independent adviser to the client, typically ranging from 0.25% to 0.70% of the client's managed assets, based on the size and complexity of the client's account and the agreement between AAM and the Sponsor. Clients should refer to the Sponsor's disclosure documents for full information on the Sponsor's advisory services.

#### Fees in General

SMA accounts, depending on the particular arrangement with each client, we will either invoice clients or directly debit their custodial accounts.

For SMA accounts, AAM's preference is to bill in advance however we do accommodate both advance and arrears. Billing for "In Advance" or "In Arrears" is based on the portfolio value as of the last business day of the previous calendar quarter. The value is calculated using the trade date positions with IDC Pricing. IDC is a large, well regarded, independent pricing service. The management fee is calculated by multiplying the portfolio value by the contracted rate. Typically the fee is one quarter of the annual fee, but for new accounts, days are subtracted for billing in arrears or one time added for billing in advance to reflect the proper number of days managed.

Fees and account minimums for all SMA services are negotiable based upon certain criteria (i.e. anticipated future earning capacity, anticipated future additional assets, dollar amount of assets to be managed, related accounts, account composition, negotiations with client, etc.).

#### Requirements for SMA account Management

AAM requires a minimum account size of \$500,000 for Fixed Income Portfolios and \$100,000 for Equity Portfolios. AAM may negotiate these terms and conditions with any client at its discretion.

We may group certain related client accounts for the purposes of determining the account size and/or annualized fee.

### Pricing of Securities for SMA Accounts

AAM takes considerable care to provide as accurate a price as possible. Securities in our clients' accounts are priced month-to-month, quarter-to-quarter using an industry recognized Third Party Service provider.

### Account Termination

Our SMA clients will have a period of five (5) business days from the date of signing the agreement to unconditionally rescind the agreement and receive a full refund of all fees. Thereafter, the client may terminate the agreement by providing us with a 30-day written notice at our principal place of business. Upon termination of any account, any prepaid, unearned fees will be promptly refunded and any earned, unpaid fees will be due and payable.

Mutual Fund & ETF Fees and Expenses: All fees paid to our firm for investment advisory services are separate and distinct from the fees and expenses charged by mutual funds and ETFs to their shareholders. These fees and expenses are described in each fund's prospectus. These fees will generally include a management fee, other fund expenses, and a possible distribution fee. A client could invest in a mutual fund & ETF directly, without the services of our firm. In that case, the client would not receive the services provided by us which are designed, among other things, to assist the client in determining which mutual fund or ETF are most appropriate to each client's financial condition and objectives. Accordingly, the client should review both the fees charged by the funds and the fees charged by us to fully understand the total amount of fees to be paid by the client and to thereby evaluate the advisory services being provided.

### Wrap Fees

In evaluating wrap fee programs, a client should recognize that transactions are usually effected "net," i.e., without commission. A portion of the wrap fee is generally considered as being in lieu of commissions. Trades are generally expected to be executed only with the broker-dealer with which the client has entered into the wrap fee arrangement, so that the investment managers in the program may not be free to seek best price and execution by placing transactions with other broker dealers. No assurance can be given that the broker-dealers will be able to obtain best execution with respect to transactions effected for such SMA programs.

Accordingly, the client may wish to satisfy him/herself that the broker-dealer offering the "wrap fee" arrangement can provide adequate price and execution of most or all transactions. The client should also consider that, depending upon the level of the wrap fee charged by the broker-dealer, the amount of portfolio activity in the client's account, the value of custodial and other services which are provided under the arrangement, and other factors, the wrap fee may or may not exceed the aggregate cost of such services if they were to be provided separately.

### Brokerage and Custodian Fees

In addition to advisory fees paid to our firm, SMA clients will also be responsible for all transaction, brokerage, and custodian fees incurred as part of their account management.

### UITs

AAM's fees for portfolio supervisory and evaluation services to AAM-sponsored UITs are generally assessed as a fixed amount per unit. The amount and method of payment of such fees are specified in the offering and governing documents of each corresponding UIT.

### Mutual Funds

For providing services to the Fund, AAM receives an annual advisory fee equal to 0.80% of average daily net assets of the Fund. AAM pays a portion of its advisory fee to Bahl & Gaynor, Inc. (the Fund's sub-advisor).

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

AAM does not charge performance-based fees.

## **Item 7. Types of Clients**

Our firm generally provides SMA advisory services to individuals, banking or thrift institutions, trusts, estates, broker-dealers, pension or profit sharing plans and charitable organizations. AAM also has AAM-sponsored UITs as a type of client. AAM also provides investment advisory services to open end management investment companies, as described above under "Advisory Business."

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

Our firm employs fundamental, technical, and charting analysis to formulate SMA client recommendations.

Fundamental Analysis: Fundamental analysis of a business involves analyzing its income statement, financial statements and health, its management and competitive advantages, and its competitors and markets. Fundamental analysis school of thought maintains that markets may mis-price a security in the short run but that the "correct" price will eventually be reached. Profits can be made by trading the mis-priced security and then waiting for the market to recognize its "mistake" and re-price the security. However, fundamental analysis does not attempt to anticipate market movements. This presents a potential risk, as the price of a security can move up or down along with the overall market regardless of the economic and financial factors considered in evaluating

the stock. Therefore, unforeseen market conditions and/or company developments may result in significant price fluctuations that can lead to investor losses.

Technical Analysis: Technical analysis seeks to identify price patterns and trends in financial markets and attempt to exploit those patterns. We follow and examine such indicators as price, volume, and market sentiment.

Charting: In this type of technical analysis, we review charts of individual security activity and the market itself in an attempt to identify trends and predict when, or for how long, the trends may last or might reverse.

Since technical analysis predictions are extrapolations from historical price patterns, investors bear risk that these patterns will not reoccur as expected. Moreover, technical analysis does not consider the underlying financial condition of a company. This may present a risk in that a poorly-managed or financially unsound company may underperform regardless of market movement.

Cyclical analysis: In this type of technical analysis, we measure the movements of a particular stock against the overall market in an attempt to predict the price movement of the security. Since cyclical analysis is based on examination of rising and falling trends, investors bear risk of mis-timing, with a specific trend lasting longer or shorter than expected.

Risks for all forms of analysis: Our securities analysis method relies on the assumption that the companies whose securities we purchase and sell, the rating agencies that review these securities, and other publicly-available sources of information about these securities, are providing accurate and unbiased data. While we are alert to indications that data may be incorrect, there is always a risk that our analysis may be compromised by inaccurate or misleading information.

Our firm employs the following investment strategies to implement investment advice given to our SMA clients:

Long-term purchases: We typically purchase securities with the idea of holding them in the clients account for a year or longer. We may do this because we believe the securities to be currently undervalued. We may do this because we want exposure to a particular asset class over time, regardless of the current projection for this class.

A risk in a long-term purchase strategy is that, by holding the security for this length of time, we may not take advantages of short-term gains that could be profitable to a client. Moreover, if our predictions are incorrect, a security may decline sharply in value before we make the decision to sell.

Short-term purchases: At times, we may also purchase securities with the idea of selling them within a relatively short time (typically a year or less). We do this in an attempt to

take advantage of conditions that we believe will soon result in a price swing in the securities we purchase.

A risk in a short-term purchase strategy is that, should the anticipated price swing not materialize, we are left with the option of having a long-term investment in a security that was designed to be a short-term purchase, or potentially taking a loss. In addition, this strategy involves more frequent trading than does a longer-term strategy, and will result in increased brokerage and other transaction-related costs, as well as less favorable tax treatment of short-term capital gains.

Trading: When appropriate to the needs of the SMA client, AAM may recommend the use of trading (securities sold within 30 days). Because these investment strategies involve certain additional degrees of risk, they will only be recommended when consistent with the client's stated tolerance for risk.

AAM generally does not recommend leverage or margin trading as a part of its core SMA investment strategies. If certain advisory clients engage in borrowing using assets in their account(s) as collateral (with or without the knowledge or control of AAM) such clients should understand the risks of leverage or margin trading, such as greater risk of loss and increased volatility, and should understand that such borrowing could make AAM's investment strategies inappropriate for these clients.

***Clients should understand that investing in any securities, including mutual funds & ETFs, involves a risk of loss of both income and principal.***

AAM acts as advisor to one or more open-end investment companies. Investors in the Fund should read the Fund's prospectus, annual and semi-annual reports and other Fund-specific material for a complete description of the Fund's investment strategies and risks.

## **Item 9. Disciplinary Information**

**E3A20040016-01**– From a 2004 NASD exam of its broker-dealer, FIS (now AAM) submitted an AWC in 2006 in which the firm was censured and fined (\$23,750). This item is attributable to the broker-dealer's isolated failures in 2004 and prior to timely submit regulatory required filings, manage the continuing education program, and enact a Customer Identification Program that addressed all customer types. From 2002 through 2005 AAM experience extremely rapid growth in the size and complexity of our business and began upgrading the experience in the Compliance Department with several key hires, including an experienced CCO and 2 additional compliance professionals.

**20050001568-01**– From a 2005 NASD exam of its broker-dealer, FIS (now AAM) submitted an AWC in 2008, in which the firm was censured, fined (\$15,000) and paid restitution of \$1038.64 for 8 municipal trades which exhibited excessive mark-ups, out of a sample review of over 54,000 trades. In summary, the eight subject trades were priced

above the firm's policy guidelines and should not have been executed. This result suggests that the firm had a supervisory system in place which delivered compliant markups 99.98% of the time. This further suggests that the firm had a robust and adequate supervisory system in place at the time. Notwithstanding, since 2004 the firm has instituted additional surveillance systems, oversight procedures and has provided continuing training on the subject of fair prices and fair markups. The firm has also implemented an electronic real time markup test and notification system which is driven by the compliance parameters and compliance rules of the firm.

**CMS040192** – From a 2004 NASD exam of its broker-dealer, FIS (now AAM) submitted an AWC in 2004 in which the firm was fined (\$80,000). NASD Department of Market Regulation found that from September 17, 2001 through March 17, 2002, the firm failed to report the correct time of execution to MSRB in 2075 trades, and from July 1, 2002 through August 30, 2002, the firm failed to timely report any transaction information in 3749 transactions in TRACE-eligible securities, and submitted a Wells Submission with incomplete information. In 2001 AAM switched clearing firms. At that time all trades were written to paper and then entered into the clearing system. A new clerical worker entered all of the trades into the clearing system but neglected to enter the trade time in the appropriate field on the ticket. Although the original, hand-written trade tickets contained the correct trade time, all tickets entered into the clearing system had no time. After several months AAM discovered the problem and reported it to the NASD (FINRA). All trades from that day forward were entered correctly. In 2002, following a merger of 2 broker/dealer firms, AAM started clearing through Bank of New York Clearing. As part of the setup procedures, AAM was required to complete a form in order to have Bank of New York process TRACE reporting for us. Unfortunately, we were not aware of this form, and trades went unreported for 2 months. As soon as we discovered the problem, we simply filled out the form requesting BNY to report to TRACE on our behalf and within a day or two we were compliant in our TRACE reporting.

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

AAM has financial industry activity arrangements which are material to its advisory business. Specifically Advisors Asset Management, Inc., is also a registered broker/dealer. In addition to its proprietary individual account advisory services, AAM currently offers access to non-proprietary asset managers and/or alternative investments. After a thorough due diligence process is completed, AAM offers access to certain separately managed accounts and/or alternative investments, managed by non-AAM third-party managers to its clients. In this arrangement, AAM does not enter into a Primary Advised or Sub-Advised relationship with any end-client or other adviser. Rather, it acts as a distribution agent for the third party manager. In the event an unaffiliated investment manager is called upon by AAM to provide services, the client will be informed of the nature and extent of the participation of the unaffiliated manager, the specific amount of compensation to the manager, and other such disclosures as may be appropriate under state and federal rules and regulations.

Prior to receiving a portion of a client's advisory fee all third-party investment advisers will be licensed as investment advisers in the appropriate state or with the Securities and Exchange Commission.

In their capacity as registered representatives outside of separately managed accounts, AAM advisory associates may receive commissions for executing securities transactions. Under no circumstance will a client be charged a management fee by AAM and pay other brokerage compensation to AAM. Clients are advised that the transaction charges may be higher or lower than the charges the client may pay if the transactions were executed at other broker-dealers.

As described above under "Advisory Business", AAM provides various services to AAM-sponsored UITs and has material business arrangements with various affiliated and unaffiliated entities in connection with such services.

As described above under "Advisory Business", AAM provides advisory services to open end management investment companies and has material business arrangements with various affiliated and unaffiliated entities in connection with such services.

## **Item 11. Code of Ethics, Participation in Client Transactions and Personal Trading**

### Code of Ethics Disclosure

Our firm has adopted a Code of Ethics which sets forth high ethical standards of business conduct that we require of our employees, including compliance with applicable federal securities laws. Our Code of Ethics includes policies and procedures for the review of quarterly securities transactions reports as well as initial and annual securities holdings reports that must be submitted by the firm's access persons. Among other things, our Code of Ethics also requires the prior approval of any acquisition of securities in a limited offering (e.g., private placement) or an initial public offering. Our code provides for oversight, enforcement and recordkeeping provisions. A copy of our Code of Ethics is available to our advisory clients and prospective clients upon request to our Chief Compliance Officer, at the firm's principal office address.

Our firm or individuals associated with our firm may buy or sell securities identical to those recommended to customers for their personal accounts. In addition, any related person(s) may have an interest or position in a certain security(ies) which may also be recommended to a client.

It is the expressed policy of our firm that no person employed by us may purchase or sell any security prior to a transaction(s) being implemented for an SMA advisory account, and therefore, preventing such employees from benefiting from transactions placed on behalf of SMA advisory accounts.

As these situations represent a conflict of interest, we have established the following restrictions in order to ensure its fiduciary responsibilities:

1. No principal or employee of our firm may buy or sell securities for their personal portfolio(s) where their decision is substantially derived, in whole or in part, by reason of his or her employment unless the information is also available to the investing public on reasonable inquiry. No principal or employee of our firm may prefer his or her own interest to that of the advisory client.
2. We maintain a list of all securities holdings for our firm and anyone associated with this advisory practice with access to advisory recommendations. These holdings are reviewed on a regular basis by our compliance team.
3. We emphasize the unrestricted right of the SMA client to decline to implement any advice rendered, except in situations where our firm is granted discretionary authority.
4. All of our principals and employees must act in accordance with all applicable Federal and State regulations governing registered investment advisory practices.
5. Any individual not in observance of the above may be subject to disciplinary action, up to and including termination.

**Item 12. Brokerage Practices**

We do not have any formal or informal soft-dollar arrangements and do not receive any soft-dollar benefits.

For those SMA accounts which AAM acts as the primary advisor, AAM will have discretionary authority and will recommend to the client the broker dealer to be used for client accounts. Generally speaking, AAM will direct that equity trades be executed with the Custodian, and that fixed income trades be executed by its own fixed income trading desk. It should be noted that for all such trades executed by its own fixed income trading desk, AAM will not trade with Firm inventory accounts, nor will any commission, mark-up or mark-down be imposed. For all equity and fixed income trades, AAM will test for Best Execution by periodically reviewing the Best Execution reports of the executing broker dealer(s).

For those SMA accounts which AAM acts as a sub-advisor, AAM will execute equity trades with the Custodian selected by the Primary Advisor and/or the end client. The primary advisor will be responsible for any test of Best Execution for these accounts. It should be noted that AAM will not have authority to negotiate commissions with the selected custodian and higher transaction costs may exist.



For those SMA accounts which AAM acts as a sub-advisor, AAM will execute fixed income trades with its own fixed income trade desk in an average price account, and will test for Best Execution by reviewing the AAM's Best Execution report. It should be noted that for all such trades executed by its own fixed income trading desk, AAM will not trade with Firm inventory accounts, nor will any commission, mark-up or mark-down be imposed.

Schwab:

Our firm participates in the Schwab Institutional (SI) services program offered to independent investment advisers by Charles Schwab & Company, Inc. ("Schwab"), a FINRA-registered broker dealer. SMA clients in need of brokerage and custodial services may have Schwab recommended to them. As part of the SI program, our firm receives benefits that it would not receive if it did not offer investment services. These benefits include: receipt of duplicate client confirmations and bundled duplicate statements; access to a trading desk serving SI participants exclusively; access to block trading which provides the ability to aggregate securities transactions and then allocate the appropriate shares to client accounts; ability to have investment advisory fees deducted directly from client account; access to an electronic communication network for client order entry and account information; receipt of compliance publications; and access to mutual funds & ETFs which generally require significantly higher minimum initial investments or are generally available only to institutional investors. The benefits received through participation in the

SI program may or may not depend upon the amount of transactions directed to, or amount of SMA assets custodied by, Charles Schwab & Co., Inc. Participation in the SI program results in a potential conflict of interest for our firm, as the receipt of the above benefits creates an incentive for us to recommend Schwab to clients.

Nonetheless, we have reviewed the services of Schwab and recommend the services based on a number of factors. These factors include the professional services offered, commission rates, and the custodial platform provided to clients. While, based on our SMA business model, we will not seek to exercise discretion to negotiate trades among various brokers on behalf of clients, we will, however, periodically attempt to negotiate lower commission rates for our clients with Schwab.

Pershing:

AAM has also negotiated an arrangement with Pershing LLC (hereafter "Pershing"), an unrelated FINRA-member broker dealer, to provide custodial and brokerage services. SMA clients in need of brokerage and custodial services may have Pershing recommended to them. AAM has evaluated Pershing and believes that it will provide AAM clients with a blend of execution services, commission costs and professionalism that will assist AAM in meeting its fiduciary obligations to clients. As part of the Pershing program, our firm receives benefits that it would not receive if it did not offer investment services. These benefits include some or all of the following: receipt of

duplicate client confirmations and bundled duplicate statements; access to a trading desk serving Pershing participants exclusively; access to block trading which provides the ability to aggregate securities transactions and then allocate the appropriate shares to client accounts; ability to have investment advisory fees deducted directly from client account; access to an electronic communication network for client order entry and account information; receipt of compliance publications; and access to mutual funds & ETFs which generally require significantly higher minimum initial investments or are generally available only to institutional investors. The benefits received through participation in the Pershing program may or may not depend upon the amount of transactions directed to, or amount of SMA assets custodied by, Pershing. Participation in the Pershing program results in a potential conflict of interest for our firm, as the receipt of the above benefits creates an incentive for us to recommend Pershing to clients.

Nonetheless, we have reviewed the services of Pershing and recommend the services based on a number of factors. These factors include the professional services offered, commission rates, and the custodial platform provided to clients.

#### SMA Trade Aggregation

#### **SMA Block Trading and Allocation Procedures**

AAM will block trades where possible and when advantageous to clients. This blocking of trades permits the trading of aggregate blocks of securities composed of assets from multiple client accounts. Block trading may permit equity trades to be executed in a timelier and more equitable manner while allowing AAM to obtain an average share price for clients participating in the block.

With respect to Separately Managed Account Fixed Income Trades, AAM will block trades where possible and when advantageous to clients. Trades are placed with AAM's trade desk in the AAM Average Price account at either Pershing or National Financial Services (NFS). The trade executions are then averaged and allocated to the appropriate clients across custodians. Depending on the custodian, these trades are delivered as Prime Broker, Trade Away, Step Outs, or Dealer to Dealer trades.

The accounts receiving an allocation will be determined by reviewing several factors (including but not limited to) the following:

Account Cash Available

Account Asset Class Percentage Guidelines

Account Duration

When a Block Buy decision is made, the Separately Managed Accounts Manager or delegate will review the Asset Class Percentage Summary Report to identify all accounts that have a need for the security in question and submit the report to the Portfolio Managers for review. Once the list of potential accounts is reviewed, the trade is executed and allocated by an AAM Trader. If the total bonds requested are not purchased the

Portfolio Manager will allocate based on determining factors which may include account cash percentage, asset class allocation, duration, and security trade minimums.

When a Block Sell decision is made, the Managed Accounts Manager or delegate will review the Security Cross Reference Report in Advent Portfolio Exchange to identify all accounts holding the position. This report will then be reviewed by the Portfolio Manager. Once the list of potential accounts is reviewed, the trade is executed and allocated by an AAM Trader. If the total bonds requested are not purchased the Portfolio Manager may allocate the trade on a pro rata basis or allocate the trade based on determining factors which may include account cash percentage, asset class percentage, duration, and security trade minimums.

If deviation from pro rata is required, then AAM will consider a variety of factors and principles, including, but not limited to, the following:

- The need for liquidity in an account
- Each accounts own investment restrictions
- Sector and asset class diversification within accounts
- Portfolio characteristics related to the stated strategy
- The size of the account and the avoidance of odd lots or excessive transaction costs relative to the size of the account
- The need to rebalance positions held by an account due to capital infusions or withdrawals
- Transactions are allocated promptly, usually on the trade date, and no reallocations adjustments are allowed without documentation
- Inception dates for new accounts

**Prime Determinants**

- Overall market exposure;
- Industry sector exposure; and
- Cash availability

**Item 13. Review of Accounts**

Investment Supervisory Services

AAM, will continuously monitor the underlying securities in SMA client accounts and perform at least annual reviews of account holdings for all clients. Accounts are reviewed for consistency with client investment strategy, asset allocation, risk tolerance and performance relative to the appropriate benchmark. More frequent reviews may be triggered by changes in an account holder's personal, tax or financial status. Economic and macroeconomic specific events may also trigger reviews. These reviews are conducted by the Managed Account Operations Department and AAM's Compliance Department also performs quarterly internal audits. The Vice President of Managed Accounts is in charge of these reviews.

In addition to the monthly statements and confirmations of transactions that SMA clients receive from their broker dealer, our firm will provide quarterly performance reports for non-platform accounts.

UIT portfolios supervised by AAM are reviewed by AAM as described above under “Advisory Business”. Unitholders in an AAM sponsored UITs receive an Annual Report prepared by the trustee to any such UIT which includes a list of portfolio and transaction activity during the year.

Where AAM acts as investment advisor to mutual funds as described above under “Advisory Business”, while the Fund’s sub-advisor is responsible for the day-to-day management of the Fund’s portfolio, AAM provides oversight of the sub-advisor and monitors and measures the Fund’s risk and return against appropriate benchmarks and peers and seeks to ensure quality control of the sub-advisor’s investment process subject to the terms of the Fund’s prospectus.

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

From time to time, AAM may enter into written agreements with unaffiliated third parties (“solicitors”) to refer prospective SMA clients to AAM that solicitors believe may desire to engage AAM to provide investment advisory services. Such relationships may result in the payment of fees by AAM to solicitors if any such referred clients open an investment advisory SMA account with AAM. Fees paid by AAM to solicitors are generally calculated as a percentage of assets under management by AAM in such referred clients’ accounts but may be based, in whole or in part, on other factors, including total assets under management and/or compensation received by AAM related to clients referred by a solicitor. Fees may be paid to solicitors by AAM or directly from clients’ accounts. These fees will only be paid to solicitors meeting certain requirements who have entered into a written agreement with AAM in accordance with Rule 206 (4) – 3 of the Investment Advisers Act of 1940. In compliance with such rule, solicitors will agree to provide prospective clients with written disclosure of its relationship with AAM prior to or at the time of any solicitation activities for which fees are to be paid by AAM, and obtain an acknowledgement of receipt of such disclosure from the prospective client. The client is paying the solicitor fee which does increase the overall fee paid by the client.

#### **Item 15. Custody**

We urge all of our SMA clients to carefully review and compare their quarterly reviews of account holdings and/or performance results to those they receive from their custodian.

#### **Item 16. Investment Discretion**

AAM requires its SMA clients to grant discretionary authority to determine which securities and the amounts of securities that are to be bought or sold for their account(s) in writing. This discretion is typically granted in the executed SMA advisory agreement.

Should the client wish to impose reasonable limitations on this discretionary authority, such limitations shall be included in this written authority statement. SMA clients may change/amend these limitations as desired. Such amendments must be submitted to us by the client in writing.

Where AAM acts as investment advisor to mutual funds AAM's investment discretion with respect to the Fund is governed by the terms of the Fund's prospectus and AAM's investment advisory agreement with the Fund. The Fund's sub-advisor is responsible for the day-to-day management of the portfolio subject to AAM's oversight.

**Item 17. Voting Client Securities**

SMA advisory clients may elect to delegate their proxy voting authority to us. Alternatively, clients may, at their election, choose to receive proxies related to their own accounts, in which case we may consult with clients as requested. To direct us to vote a proxy in a particular manner, clients should contact SMA Administration by telephone, electronic mail, or in writing.

When we have discretion to vote proxies for our SMA clients, we will vote those proxies in the best interests of its clients and in accordance our established policies and procedures. Our firm will retain all proxy voting books and records for the requisite period of time, including a copy of each proxy statement received, a record of each vote cast, a copy of any document created by us that was material to making a decision how to vote proxies, and a copy of each written client request for information on how the adviser voted proxies. If our firm has a conflict of interest in voting a particular action, we will notify the client of the conflict and retain an independent third-party to cast a vote.

SMA clients may obtain a copy of our complete proxy voting policies and procedures by contacting SMA Administration directly. Clients may request, in writing, information on how proxies for his/her shares were voted. If any client requests a copy of our complete proxy policies and procedures or how we voted proxies for his/her account(s), we will promptly provide such information to the client.

We will neither advise nor act on behalf of the SMA client in legal proceedings involving companies whose securities are held in the client's account(s), including, but not limited to, the filing of "Proofs of Claim" in class action settlements. If desired, clients may direct us to transmit copies of class action notices to the client or a third party. Upon such direction, we will make commercially reasonable efforts to forward such notices in a timely manner.

Where AAM acts as investment advisor to mutual funds, the duty to vote proxies for securities held in the Fund's portfolio has been delegated to the Fund's sub-advisor.

**Item 18. Financial Information**

Under no circumstances will we earn fees in excess of \$1,200 more than six months in advance of services rendered.