

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



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All Information as of December 31, 2011

This document, which serves as a *Brochure*, provides information about the qualifications and business practices of Mercator Asset Management, L.P. (“MAM”). If you have any questions about the contents of this *brochure*, please contact us using the contact information listed above. The information in this *brochure* has not been approved or verified by the United States Securities and Exchange Commission (“SEC”) or by any state securities authority.

Additional information about MAM is also available on the SEC’s website at: [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov)

Although MAM is a Registered Investment Adviser with the SEC, registration itself does not imply any certain level of skill or training.

**Item 2 Material Changes**

There were no material changes to MAM's *brochure* during 2011.

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## Item 4 Advisory Business

### A. Firm Description

MAM is an independent investment adviser registered under the *Investment Adviser's Act of 1940* ("IA Act"). The Firm was founded in 1984 and specializes in international equity portfolios for institutional *clients*.

We are structured as a Delaware limited partnership with 5 (five) principals sharing ownership through their 100% owned corporations. No one partner owns more than 25% of the firm.

### B. Advisory Services Offered

We specialize in international equity investments and offer our investment advisory services primarily to institutional separate account *clients*.

Additionally, we act as:

- Sub-adviser to certain registered investment companies; and
- Investment adviser to an unregistered insurance company separate account and the following private investment funds, which are managed in accordance with their investment objectives, strategies and guidelines. We provide investment advice directly to the funds and not individually to any particular investor of the funds.
  - Mercator International Fund ("MIF") organized as a New Hampshire investment trust. MIF seeks to invest primarily, although not exclusively, in international equity investments.
  - Mercator Emerging Markets Partners LLC ("MEMP") organized as a Delaware limited liability company and owned by certain partners of MAM. MEMP seeks to invest primarily, although not exclusively, in equity investments of emerging markets countries.

The firm does not participate in any wrap fee programs.

### C. Client Restrictions

We provide investment supervisory services for separate account *clients* only after reviewing and discussing the *client's* individual needs and investment objectives. These needs and objectives may require us to tailor our advisory services in order to comply with the *client's* guidelines.

We tailor our services by utilizing a feature of our multi-currency portfolio accounting system that can apply pre-trade and post-trade restrictions/prohibitions on a *client* by *client* basis. Examples of typical restrictions are:

- by country/region;
- by industry/sector;
- by cash limits; and
- by individual security names.

*Client* restrictions/guidelines are monitored on an ongoing basis.

**D. Amount of *Discretionary* and *Non-Discretionary Client* Assets Managed**

As of December 31, 2011 the amount of assets under management (all *client* accounts are managed on a *discretionary* basis) was: \$5,438,762,728.

## **Item 6 *Performance-based fees and Side-By-Side Management***

We currently have an agreement with one *client* to charge a fee based in whole or in part on the investment performance of that *client*'s account and may, at any time, agree with other *clients* to charge a *performance-based fee*. This fee is billed in arrears for the three month period.

The simultaneous management of assets of *client* accounts where most are charged an asset-based fee and one is charged a *performance-based fee* presents a potential conflict of interest (the incentive to favor the *performance-based fee* account over the others in the allocation of investments or the allocation of time, services or functions). MAM mitigates this risk by its policies and procedures and by using an investment team approach to management. For example, all *client* accounts (where their investment guidelines allow) consist of identical securities, all transactions are allocated on a pro-rata basis, and performance is monitored on a daily basis in order to identify any inconsistencies.

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

We generally provide investment advice to:

- Investment companies
- Pooled investment vehicles
- Corporate and public pension and profit sharing plans
- Trusts, estates or charitable organizations

MAM considers each prospective *client* on an individual basis. Generally, we will not accept a new *client* to manage with assets of less than \$50 million unless special circumstances are present.



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

### A. General Description – Analysis, Strategy and Risk of Loss

MAM seeks to add value primarily through stock selection and secondarily through identification of countries and geographical regions offering attractive investment opportunities. In constructing a diversified portfolio, MAM seeks to maximize the total return for its *clients*, taking into account changes in the market prices of investments and changes in the values of currencies in which *client* assets are denominated. We generally emphasize equity investments of developed/emerging markets.

MAM's philosophy is value investing with bottom-up stock analysis. We seek to invest in stocks that are undervalued and are out-of-favor/overlooked by most investors, with the goal of achieving superior long-term performance.

The investment process for this strategy is a team effort that relies on fundamental stock analysis to identify stocks with value characteristics. Fundamental analysis adds value by identifying which stocks we believe should outperform and should, therefore, be purchased. We look for catalysts for stock price appreciation and seek to identify opportunities that are being underappreciated and/or overlooked. We confirm and review all analysis internally.

A *client's* principal may be worth less when securities are sold than when the securities were purchased.

### B. Material Risks associated with Analysis and Investment Strategy

MAM's international equity strategy includes the risk that stock prices of undervalued companies may not increase as quickly as anticipated if the market doesn't recognize their underlying value or if value stocks are out of favor.

MAM applies basic Risk Controls to the portfolio construction process with guidelines for maximum stock, industry/sector, and country/region weights.

### C. Material Risks associated with investing in International Equities

Investments are made using strategies and financial techniques with significant risk characteristics. No guarantee is made that the investment objectives of any *client* are going to be realized. Below is a list of potential risk factors that are reportable in this *brochure*. There is no guarantee that this is a complete list of the risks, that MAM will be able to control investment risks or that the risk will not aggregate in a manner adverse to its *clients*. For MIF participants, additional risks may be disclosed in the offering memorandum provided to them.

We provide investment advice with respect to equities denominated in the currencies of foreign countries as issued by their governments.

Inherent risks due to investing in international equities are as follows:

- **Foreign Securities risk** – securities of foreign companies generally carry more risk than U.S. companies, including political, economic, informational and credit risks

- **Emerging Markets risk** – economic and political structures of developing nations, in most cases, do not compare favorably with the U.S. or other developed countries in terms of wealth and stability, and their financial markets often lack liquidity
- **Currency risk** – fluctuations in the exchange rates between U.S. dollar and foreign currencies may negatively affect investments

## **Item 9 Disciplinary Information**

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

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

MAM serves as investment adviser to (see Item 4) MEMP, where a management person of MAM also serves as managing member of MEMP and which is owned by certain partners of MAM.

We mitigate any potential conflicts of interest by our policies and procedures and by using an investment team approach to management. Subject to the investment guidelines applicable to individual *clients*, MAM allocates investment opportunities on a pro-rata basis among *client* accounts. Performance is monitored on a daily basis to identify any inconsistencies.

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

### **Summary of Code of Ethics:**

MAM's Code of Ethics ("The Code"), as summarized below, sets out the "behavioral framework" by which we expect ALL Access Persons (given MAM's current firm size of 16 employees, ALL employees are considered Access Persons) to conduct themselves. The Code requires Access Persons to certify compliance with the Code throughout their employment.

The failure to comply with the Code may result in disciplinary action, including termination of employment.

MAM will provide the Code to any *client* or prospective *client* upon request.

### **General Principles of the Code:**

- The interests of our *clients* must always come first.
- All personal securities transactions must be conducted to avoid any conflict of interest or any abuse of an individual's position of trust and responsibility.
- Our personnel should not take inappropriate advantage of their positions.
- Information concerning security holdings and *client* finances is confidential.
- Independence in the investment decision-making process is paramount.

### **Specific Standards and Policies of the Code:**

- **Compliance with Laws and Regulations** - The Code requires Access Persons to comply with all U.S. federal securities laws and those of any other applicable jurisdiction. Under federal law, Access Persons are not permitted to defraud or mislead a *client*, or to engage in any manipulative practice with respect to *clients* or securities.
- **Conflicts of Interest** - MAM has an affirmative duty of care, loyalty, honesty, and good faith to act in the best interests of its *clients*.
- **Conflicts Among *Client* Interests** – Access Persons are prohibited from any inappropriate favoritism of one *client* over another *client* that would constitute a breach of fiduciary duty.
- **Competing with *Client* Trades** – The Code prohibits Access Persons from using knowledge about pending or currently considered *client* securities transactions to profit personally, directly or indirectly, as a result of such transactions.
- **Disclosure of Personal Interest** - The Code requires MAM's investment personnel, prior to considering, recommending, or implementing any security transaction for a *client*, to disclose any material beneficial ownership, relationship, or other material interest in the issuer of the security to MAM's Chief Compliance Officer ("CCO").
- **Insider Trading** - Access Persons are prohibited from trading in securities of an issuer either for themselves or others, while in possession of material, non-public information concerning that issuer or its securities.

- **Personal Securities Trading** – To prevent conflicts of interest between Access Persons’ personal securities transactions and MAM’s *client* transactions/holdings, the Code prohibits (with limited exceptions requiring pre-clearance) any Access Person’s personal securities transactions (excluding automatic investment plan purchases and transactions that the Access Person does not influence or control) in any Covered Securities listed at the time of such transaction in MAM’s Watch List. The Watch List includes all Covered Securities we currently hold in *client* accounts or are those being considered for purchase by us for any *client* account at any time in the 15 days before such Access Person’s transaction.

With respect to the prohibitions on Covered Securities transactions discussed in the preceding paragraph and the pre-clearance requirements discussed below (except where indicated), MEMP is treated as a *client* account. Thus, its purchases or sales of securities are not considered “personal securities transactions” by Access Persons as long as those transactions are made in accordance with our trade allocation procedures.

Personal Securities Transactions whereby Pre-Clearance (Cleared by Trader and Approved by Compliance) is required:

- An Access Person desiring to dispose of a legacy Covered Security that he or she beneficially owns as it now appears on the Watch List. (No such pre-clearance will be given while there is a pending purchase or sale order for the same Covered Security for a *client*, or within seven calendar days after completion of a *client* trade in the same Covered Security.);
- Personal securities transactions (except under automatic investment plans or without the Access Person’s influence or control) in any mutual fund that MAM sub-advises; and
- Acquisitions of any security (including securities acquired by MEMP) in an initial public offering or private placement.
- **Gifts and Entertainment** -- The Code contains guidelines to prevent Access Persons from accepting inappropriate gifts or other things of material value that could influence their decision-making or make them feel beholden to a person or firm. The Code also includes guidelines to prevent Access Persons from offering gifts or other things of value that could be viewed as overly generous or aimed at influencing decision-making or making a *client* feel beholden to either MAM or the Access Person.
- **Political and Charitable Contributions** – Access Persons are strictly prohibited from making any contribution to an incumbent, candidate or successful candidate for elective office of a state or municipal government.

The Code prohibits Access Persons from considering MAM’s current or anticipated business relationships as a factor in the solicitation of charitable donations.

- **Confidentiality** – The Code requires that all information about *clients* (including former *clients*) shall be kept in strict confidence, including the *client*’s identity (unless the *client* consents), the *client*’s financial circumstances, the *client*’s security holdings, and advice furnished to the *client* by us.

- **Service on Board of Directors** – The Code prohibits General Partners and other investment personnel from serving on public company boards of directors, absent prior authorization by the CCO based upon a determination that the board service would be consistent with the interests of our *clients*.
- **Marketing and Promotional Activities** – The Code requires that all oral and written statements, including those made to *clients*, prospective *clients*, their representatives, or the media, must be professional, accurate, balanced and not misleading in any way.
- **Social Media** – MAM Access Persons are prohibited from communicating, via either personal email accounts or social media networks, any firm-related information. This ban includes any reference at all to MAM, through these communication portals.

#### **The Code's Compliance Procedures:**

- **Holdings Reports** – Each Access Person upon commencement of employment and annually thereafter within 45 days after each December 31, is required to furnish a report to the CCO disclosing information concerning all of his or her beneficially owned Covered Securities, and the name of any broker, dealer, or bank with which the Access Person maintains a securities account.
- **Personal Securities Transaction Reporting and Exceptions** - Access Persons are also required to direct their brokers to supply the CCO duplicate copies of confirmations of all securities transactions and copies of periodic statements for all securities accounts in which such Access Persons have a direct or indirect beneficial ownership interest. For each calendar quarter, each Access Person is required to review their confirmations and deliver to the CCO a signed statement certifying that those confirmations (together with any necessary supplemental information) reflect all transactions during such quarter in which the Access Person acquired or disposed of beneficial ownership. (Access Persons' reports of securities holdings and transactions need not include securities in accounts over which the Access Person has no influence or control or transactions effected by an automatic investment plan.)
- **Monitoring** - The CCO monitors personal investment activity by Access Persons by reviewing reports of such investment activity (including brokerage confirmations) to confirm that all executed transactions were pre-cleared, if required, and by the comparison vs. the Watch List to identify possible violations of the Code.
- **Holdings/Transactions of MEMP** - For purposes of the Code, investments made by MEMP will not be considered personal securities transactions subject to the individual reporting requirements discussed above. Access Persons will not be required to report individual securities holdings/transactions related to that fund. However, the CCO shall obtain all trading reports of MEMP, and review such reports to monitor compliance with the Code and the *IA Act*. The CCO shall also review the trading reports of MEMP to confirm that trade allocations involving such Fund are consistent with MAM's trade allocation procedures.
- **Certification of Compliance** - The Code requires Access Persons to certify compliance with the Code upon employment and annually as of December 31.

**The Code also contains provisions requiring:**

- the retention of records relating to the Code and compliance with the Code;
- the education of Access Persons concerning the Code;
- the annual review, by the CCO, of the Code and its effectiveness; and
- the reporting of violations of the Code, and sanctions for violations.



## Item 12 Brokerage Practices

### A. Broker Selection and Commissions

All broker dealers meet minimum capital requirements and are determined to be in sound financial condition before a relationship is established. The next criteria we use for broker selection is value added. In addition, brokerage firms that provide a quality research product aid the investment team in choosing sound investment ideas and ultimately benefit the *client*.

We maintain an approved broker list that is reviewed at least annually by the entire investment team. The list contains many long-standing relationships. During review, brokers are rated in all areas of performance, including:

- Quality of overall execution services provided
- Creditworthiness and business reputation
- Research provided
- Promptness and accuracy of oral, hard copy or electronic reports of execution
- Reliability
- Commission rate

Since MAM is an international equity adviser, the examination of brokers is broken up by market. This way we can place brokers on a side-by-side basis to see across their typical commission rates and verify that they are in similar categories by country.

It is also acceptable to deal with brokers not on this list if a firm presents a good investment idea and meets all the required criteria.

### 1. Research and Other Soft Dollar Benefits.

The receipt of investment research allows us to supplement the research and analysis activities performed by us by making from broker dealers the following available:

- advice,
- analyses and reports of brokerage firms, including written materials concerning certain companies, industries, area economies or market factors,
- facilitation of meetings and conference calls concerning matters with company executives, securities analysts and others with relevant expertise.

MAM does not have any third party soft dollar arrangements.

*Client* commissions paid to broker-dealers used to obtain research may benefit MAM as we would not have to produce or pay for this research. Given this practice, the following may occur:

- a. MAM may have an incentive to select a broker-dealer based on our interest in receiving research rather than our *clients'* interest in receiving best execution.

- b. MAM believes that the investment research provided by broker-dealers and their ability to seek best execution is important to its *clients*; broker-dealers selected by us may be paid commissions in excess of the amount that other broker-dealers might have charged for similar transactions. We must first determine in good faith that such differences in commission amounts are reasonable in relation to the value of the brokerage and research services provided by that broker-dealer.
- c. MAM does not attempt to allocate the relative costs or benefits of research among its *clients*, as all research received by us is available for use in making investment decisions for all of our *clients*. However, certain research received for a particular *client*'s brokerage commissions may or may not be useful to such *client*, but may be useful to other *clients*' accounts and vice versa.
- d. All soft dollar transactions are indicated to brokers on the block order allocation sheet or orally when placing the order. The trades are marked internally and tracked quarterly.

## **2. Directed Brokerage.**

If a *client* designates the use of a particular broker/dealer, pursuant to written direction, the *client* must understand that:

- MAM may or may not be able to negotiate commission rates on the *client*'s behalf, and, as a result, the *client* may pay higher commissions (or receive less favorable prices or execution), depending on its arrangements with the broker/dealer and upon other factors such as the volume of shares, the market for the security, and market making capabilities of the particular broker/dealer;
- It will lose the possible advantage which non-directed *clients* derive from the aggregation of orders for multiple *clients* in a single "batched" transaction where MAM would, in some instances, be in a better position to negotiate brokerage commissions if the brokerage were not directed.

## **B. Aggregated or "Block" Orders.**

On occasions when MAM deems the purchase or sale of a security to be in the best interests of multiple *clients*, as is often the case, we, to the extent permitted by applicable laws and regulations, may, but are under no obligation to, aggregate the securities to be sold or purchased in order to obtain the most favorable price or lower brokerage commissions and efficient execution. In such event, allocation of the securities so purchased or sold, as well as the expenses incurred in the transaction, will be made by us in the manner it considers to be most equitable and consistent with its fiduciary obligations to our *clients*.

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

#### **A. Periodic Review of *Client* Accounts**

- Accounts are reviewed by one or more of MAM's general partners on at least a weekly basis
- Administrators perform a full reconciliation of our records vs. custodian bank records for each *client* account on a monthly basis

#### **B. Other than Periodic Review of *Client* Accounts**

The receipt of meaningful information relating to the economic or market environment, individual companies or industries or factors that alter the *client's* investment objectives could prompt immediate review of each account affected by such information. In addition, all accounts are reviewed quarterly by MAM's Portfolio Management committee.

#### **C. MAM Regular Reports supplied to *Clients***

MAM prepares and delivers to all *clients* quarterly valuations of their accounts reflecting cash and all currently held investment positions listing relevant cost, market value, and income data. *Clients* may request more frequent or more detailed reports in accordance with their individual needs. *Clients* also receive statements from the custodian of their securities, which include broker executed transaction information.

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

MAM does not engage in the practice of paying others (either directly or indirectly) for *client* referrals nor does it receive any other compensation itself for providing investment advice to its *clients* (i.e., sales awards or prizes).

**Item 15** *Custody*

Item 15 is not applicable to Mercator.

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

We provide ongoing supervision to all *client* accounts. Each *client* has given MAM written *discretionary authority* over the *client*'s accounts with respect to:

- Which securities are to be bought or sold (unless specific *client* restrictions must be applied);
- The amount of securities to be bought or sold (unless specific and unusual cash requirements arise);
- When these transactions can take place (unless specific and unusual cash requirements arise); and
- What broker-dealer to use for each *client* transaction (unless we have been given explicit directed brokerage instruction by a *client*).

**Item 18 Financial Information**

There are no financial circumstances present that would impair MAM's ability to meet contractual commitments to our *clients*.