

## Item 1. Cover Page

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

April 2, 2012

#### **AHM Asset Management, LLC**

SEC File No. 801-56226

11975 Westline Industrial Drive  
St. Louis, MO 63146

phone: 314-523-8800  
email: [dkemper@ahmfinancialgroup.com](mailto:dkemper@ahmfinancialgroup.com)  
website: [www.ahmfinancialgroup.com](http://www.ahmfinancialgroup.com)

This brochure provides information about the qualifications and business practices of AHM Asset Management, LLC. If you have any questions about the contents of this brochure, please contact us at [dkemper@ahmfinancialgroup.com](mailto:dkemper@ahmfinancialgroup.com). The information in this brochure has not been approved or verified by the United States Securities and Exchange Commission or any State Securities Commission.

Additional information about AHM Asset Management, LLC, is also available on the SEC's website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).

## Item 2. Material Changes

Initial publication date is March 31, 2011.

The SEC adopted "Amendments to Form ADV" in July, 2010. This Firm Brochure, dated 03/30/2011, is our new disclosure document prepared according to the SEC's new requirements and rules. As you will see, this document is a narrative that is substantially different in form and content, and includes some new information that we were not previously required to disclose.

After our initial filing of this Brochure, this Item will be used to provide our clients with a summary of new and/or updated information. We will inform you of the revision(s) based on the nature of the updated information.

Consistent with the new 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. Furthermore, we will provide you with other interim disclosures about material changes as necessary.

## Item 3. Table of Contents

Item 1.	Cover Page.....	1
Item 2.	Material Changes.....	2
Item 3.	Table of Contents .....	3
Item 4.	Advisory Business .....	5
A.	Description of Your Advisory Firm.....	5
B.	Investment Advisory and Financial Planning Services.....	5
C.	Client-Tailored Services and Client-Imposed Restrictions.....	7
D.	Wrap Fee Programs.....	7
E.	Client Assets Under Management .....	8
Item 5.	Fees and Compensation .....	9
A.	Methods of Compensation and Fee Schedule .....	9
B.	Client Payment of Fees.....	10
C.	Additional Client Fees Charged .....	10
D.	Prepayment of Client Fees .....	11
E.	External Compensation for the Sale of Securities to Clients.....	11
Item 6.	Performance-Based Fees and Side-by-Side Management.....	12
Item 7.	Types of Clients.....	13
Item 8.	Methods of Analysis, Investment Strategies and Risk of Loss .....	14
A.	Methods of Analysis and Investment Strategies .....	14
B.	Investment Strategy and Method of Analysis of Material Risks.....	21
C.	Concentration Risk.....	24
Item 9.	Disciplinary Information.....	25
A.	Criminal or Civil Actions.....	25
B.	Administrative Enforcement Proceedings.....	25
C.	Self-Regulatory Organization Enforcement Proceedings .....	25
Item 10.	Other Financial Industry Activities and Affiliations .....	26
A.	Broker-Dealer or Representative Registration .....	26
B.	Futures or Commodity Registration.....	26
C.	Material Relationships Maintained by this Advisory Business and Conflicts of Interest.....	26

D.	Recommendation or Selection of Other Investment Advisors and Conflicts of Interest.....	26
Item 11.	Code of Ethics, Participation or Interest in Client Transactions, and Personal Trading .....	27
A.	Code of Ethics Description.....	27
B.	Investment Recommendations Involving a Material Financial Interest and Conflicts of Interest .....	27
C.	Advisory Firm Purchase of Same Securities Recommended to Clients and Conflicts of Interest .....	27
D.	Client Securities Recommendations or Trades and Concurrent Advisory Firm Securities Transactions and Conflicts of Interest.....	27
Item 12.	Brokerage Practices .....	29
A.	Factors Used to Select Broker-Dealers for Client Transactions.....	29
B.	Aggregating Securities Transactions for Client Accounts.....	30
Item 13.	Review of Accounts .....	34
A.	Schedule for Periodic Review of Client Accounts or Financial Plans and Advisory Persons Involved.....	34
B.	Review of Client Accounts on Non-Periodic Basis.....	34
C.	Content of Client-Provided Reports and Frequency.....	34
Item 14.	Client Referrals and Other Compensation.....	35
A.	Economic Benefits Provided to the Advisory Firm from External Sources and Conflicts of Interest.....	35
B.	Advisory Firm Payments for Client Referrals.....	35
Item 15.	Custody .....	36
Item 16.	Investment Discretion.....	37
Item 17.	Voting Client Securities.....	38
Item 18.	Financial Disclosures .....	39
A.	Balance Sheet.....	39
B.	Financial Conditions Reasonably Likely to Impair Advisory Firm's Ability to Meet Commitments to Clients.....	39
C.	Bankruptcy Petitions During the Past Ten Years .....	39
	<b>Brochure Supplement.....</b>	<b>40</b>

## Item 4. Advisory Business

### A. Description of Your Advisory Firm

AHM Asset Management, LLC ("AHM"), is organized as a Missouri limited liability company. AHM through various intermediary subsidiaries is principally owned by Vincent Robert Vitale and William P. Stiritz.

AHM is an independent asset management and financial planning firm offering a variety of financial services to individuals, trusts, corporations, partnerships, retirement plans, tax exempt and other legal entities. For its discretionary asset management services, AHM receives a limited power of attorney to effect securities transactions on behalf of its clients that include securities and strategies itemized in Item 8 of this brochure. In addition, pursuant to the terms of its investment advisory agreement ("agreement") with clients, AHM will remind clients of their obligation to inform AHM of any changes or restrictions that should be imposed on the management of the client's account. AHM will also contact clients at least annually to determine whether there have been any changes in a client's personal financial circumstances, investment objectives and tolerance for risk.

AHM's clients are advised to promptly notify AHM if there are ever any changes in their financial situation or investment objectives or if they wish to impose any reasonable restrictions upon AHM's management services. Neither AHM nor the client may assign the agreement without the consent of the other party. Transactions that do not result in a change of actual control or management of AHM will not be considered an assignment. A copy of AHM's privacy policy notice and written disclosure statement that meets the requirements of Rule 204-3 of the Investment Advisers Act of 1940, as amended ("Advisers Act"), shall be provided to each client prior to or contemporaneously with the execution of the agreement.

### B. Investment Advisory and Financial Planning Services

#### B.1. Financial Planning Services

The client will receive a written or oral report (depending on the client's preference) providing a basic financial plan designed to help achieve the client's stated financial goals and objectives. Based on the client's needs, financial planning services may include—but are not limited to—the following:

- Preparation of a recommended asset allocation that serves to diversify the client's portfolio among different categories of investments such as domestic and international small, medium and large capitalization securities; corporate and government fixed income (short, intermediate and long-term maturities); emerging market securities (i.e., foreign issuers); real estate investment trusts; and such other alternative asset categories that are suitable in light of the client's investment goals, objectives and risk tolerance.
- Preparation of an investment policy statement setting forth the investment plan of the client with specific direction in terms of diversification requirements, tax issues, estate

planning issues, risk tolerance, retirement and other identified objectives of the client including a targeted rate of return objective.

- Preparation of a retirement plan that serves to identify whether the client is saving enough and investing in a way that meets retirement objectives in light of the client's financial circumstances and risk tolerance.
- Preparation of cash flow projections to ensure the client can meet daily living expenses and obligations.
- Insurance planning to meet the needs of the client, taking into account family, business and other financial objectives of the client.

AHM gathers required information through in-depth personal interviews and questionnaires. Information gathered includes a client's current financial status, investment objectives, future goals and attitudes toward risk. Related documents supplied by the client are carefully reviewed, and a report is prepared covering one or more of the above-mentioned topics as directed by the client.

## **B.2. Discretionary Asset Management Services**

AHM's discretionary asset management services are predicated on creating diversified portfolios consisting of individual securities, mutual funds and exchange-traded funds ("ETFs"). The portfolio allocation chosen seeks a projected return potential consistent with the client's investment objectives, goals, tolerance for risk, and other personal and financial circumstances. In preparing the asset allocation, AHM will analyze each client's current investments, investment objectives, goals, age, time horizon, financial circumstances, investment experience, investment restrictions and limitations, and risk tolerance. AHM's objective is to review the client's tax, financial, and financial goals in connection with the client's investment objectives, goals, tolerance for risk and other personal and financial circumstances and make appropriate portfolio implementation decisions. AHM may engage third-party service providers to assist with the tax and estate planning portion of the services provided to clients, or to screen, evaluate and provide recommendations on an appropriate mix of portfolio assets for a given level of risk tolerance. In addition, AHM may utilize third-party software to analyze individual security holdings and separate account managers utilized within the client's portfolio.

AHM will prepare an Investment Policy Statement based on the client's investment objectives, goals, and tolerance for risk and such other factors unique to the client, and provide appropriate recommendations. On a quarterly basis, AHM, in connection with a third-party service provider, will provide such clients with reports regarding the performance of their portfolios. In addition, AHM will monitor those portfolios and make additional recommendations from time to time to rebalance and/or reallocate each client's investments as necessary.

AHM's investment advisory services to clients, as noted above, take into account a client's personal financial circumstances, investment objectives and tolerance for risk (e.g., cash-flow, tax and estate). AHM's engagement with a client will include, as appropriate, the following:

- Providing assistance in reviewing the client's current investment portfolio against the client's personal and financial circumstances as disclosed to AHM in response to a questionnaire and/or in discussions with the client and reviewed in meetings with AHM.

- Analyzing the client's financial circumstances, investment holdings and strategy, and goals.
- Providing assistance in identifying a targeted asset allocation and portfolio design.
- Implementing and/or recommending individual equity and fixed income securities, mutual funds and ETFs.
- Reporting to the client on a quarterly basis or at some other interval agreed upon with the client information on contributions and withdrawals in the client's investment portfolio, and the performance of the client's portfolio measured against appropriate benchmarks (including benchmarks selected by the client).
- Proposing changes in the client's investment policy statement and/or targeted asset allocation in consideration of changes in the client's personal circumstances, investment objectives and tolerance for risk, the performance record of any of the client's investments, and/or the performance of any fund or manager retained by the client.
- If the client's portfolio and personal circumstances, investment objectives and tolerance for risk make such advice appropriate, providing recommendations to hedge a client's portfolio through the use of derivative strategies or to generate additional income through the use of covered call option writing strategies involving exchange-listed or OTC options, and/or to monetize or hedge concentrated stock positions.

In addition to providing AHM with information regarding their personal financial circumstances, investment objectives and tolerance for risk, clients are required to provide AHM with any reasonable investment restrictions that should be imposed on the management of their portfolio, and to promptly notify AHM of any changes in such restrictions or in the client's personal financial circumstances, investment objectives, goals and tolerance for risk. On a quarterly basis, AHM's reports to clients will remind clients of their obligation to inform AHM of any such changes or any restrictions that should be imposed on the management of the client's account. AHM will also contact clients at least annually to determine whether there have been any changes in a client's personal financial circumstances, investment objectives and tolerance for risk.

## **C. Client-Tailored Services and Client-Imposed Restrictions**

Each client's account will be managed on the basis of the client's financial situation and investment objectives, and in accordance with any reasonable restrictions imposed by the client on the management of the account. Clients may impose reasonable restrictions on the management of their accounts; for example, a client may restrict the type or amount of security to be purchased in the portfolio.

## **D. Wrap Fee Programs**

AHM does not participate in wrap fee programs. (Wrap fee programs offer services for one all-inclusive fee.)

### **E. Client Assets Under Management**

AHM currently has \$197,750,441 in discretionary client assets under supervision and \$17,651,746 in non-discretionary client assets under management.



## Item 5. Fees and Compensation

### A. Methods of Compensation and Fee Schedule

#### A.1. Financial Planning Fees

AHM charges hourly or fixed rates when there are no investment assets to supervise on an ongoing basis. AHM's financial planning services require no minimum account. AHM does not offer fixed fee arrangements to all clients. Generally, the more complex the financial planning engagement, the higher the likelihood that fixed fees will be negotiated, as it is difficult with respect to complex cases to discern the exact number of hours required to provide services. In this particular case, a fixed fee would be negotiated and then reevaluated at a later point to determine whether the fixed fee compensation requires adjustment.

Fixed fees are computed based upon an estimate of hours required to perform services. Where the time spent can be accurately estimated, then an hourly charge would apply. The applicant attempts to maintain parity with hourly and fixed charges while allowing some flexibility in estimation, taking into account case complexity and client-specific circumstances. Financial planning fees will be billed at the rate of \$150 per hour or a fixed fee mutually agreed upon by the client and AHM. Invoices will be mailed out on a periodic basis reflecting completed work performed. Clients seeking to terminate this service must do so in writing.

#### A.2. Asset Management Fees

Clients will be charged as a percentage of assets under supervision. The fees will be computed in the following manner (basis point charge x equity value of assets x actual number of days/365 days) and charged monthly in advance. AHM's asset-based fee schedule for accounts is detailed below, although such fee schedule is negotiable.

##### *Tiered Pricing Schedule (AHM Managed Assets)*

<u>Fee Schedule</u>	<u>Annual Fee</u>
First \$500,000	1.0%
Next \$500,000	0.75%
Next \$4,000,000	0.6%
Next \$5,000,000	0.5%
Over \$10,000,000	Negotiable

The client authorizes the qualified custodian to automatically deduct the fee and all other charges payable hereunder from the assets in the account when due, with such payments to be reflected on the next account statement sent to the client. If insufficient cash is available to pay such fees, securities in an amount equal to the balance of unpaid fees will be liquidated to pay for the unpaid balance. AHM may modify the fee at any time upon thirty (30) days written notice to the client.

Generally, fees will be charged in advance on a monthly basis. Clients will be invoiced at the beginning of each calendar month, based upon the market value (market value plus any credit balance or minus any debit balance) of the client's account at the end of the previous month, as mutually agreed upon by the client and AHM.

AHM's fees will be billed directly to and paid from the client's account by the custodian of the client's portfolio. The fees charged by AHM do not include fees charged by any mutual fund or custodian. The management fees for mutual funds are disclosed in each mutual fund's prospectus. Clients are advised to read these materials carefully before investing.

Similarly, the fees charged by AHM do not include any fees charged by a broker-dealer or custodian, attorneys, accountants or other agents retained by a client to implement AHM's advice or to otherwise hold the client's portfolio securities.

### **A.3. Additional Terms for All AHM Client Accounts**

Advisory fees are always subject to the investment advisory agreement between the client and AHM. Asset-based fees are payable monthly in advance. The fees will be prorated if the investment advisory relationship commences otherwise than at the beginning of a calendar month. There will be no fee adjustments for contributions to and distributions from a client's portfolio.

A client investment advisory agreement may be canceled at any time by the client, or by AHM with thirty (30) days prior written notice to the client. Upon termination of any account, any prepaid, unearned fees will be promptly refunded and any earned, unpaid fees will be due and payable. The client has the right to terminate an agreement without penalty within five (5) business days after entering into the agreement.

## **B. Client Payment of Fees**

AHM will not take custody or possession of client funds or securities at any time except to the extent that AHM may deduct fees directly from the client's account. AHM will deduct advisory and custodial fees directly from the client's account provided that (1) the client provides the qualified custodian written authorization, and (2) the qualified custodian sends the client a statement, at least quarterly, indicating all amounts disbursed from the account.

The client is responsible for verifying the accuracy of the fee calculation, as the client's custodian will not verify the calculation.

## **C. Additional Client Fees Charged**

The fees charged by AHM do not include fees charged by any exchange-traded fund, mutual fund, pooled investment vehicle, or any broker-dealer or custodian selected by the client. The management fees for pooled investment vehicles are disclosed in their confidential offering memoranda and applicable subscription documents or, in the case of an exchange-traded fund or mutual fund, in the respective fund's prospectus. Clients are advised to read these materials carefully before investing. If a mutual fund also imposes sales charges, the client may pay an

initial or deferred sales charge as further described in the mutual fund's prospectus. A client using AHM may be precluded from using certain mutual funds or separate account managers because they may not be offered by the client's custodian.

Generally, fees will be charged in advance; clients will be invoiced at the beginning of each calendar month based upon the market value (market value plus any credit balance or minus any debit balance) of the client's account at the end of the previous month.

Fees charged by mutual funds, exchange-traded funds, and privately pooled investment vehicles are separate and apart from the advisory fees charged by AHM. Similarly, the fees charged by the firm do not include any fees charged by a broker-dealer or custodian retained by a client to implement AHM's advice or to otherwise hold the client's portfolio securities.

#### **D. Prepayment of Client Fees**

AHM requires the prepayment of its asset based investment advisory fees on a monthly basis. If the client terminates during the month AHM will promptly refund any prepaid, unearned fees. AHM's fees will either be paid directly by the client or disbursed to AHM by the qualified custodian of the client's investment accounts, subject to prior written consent of the client. The qualified custodian will deliver directly to the client an account statement, at least quarterly, showing all investment and transaction activity for the period, including fee disbursements from the account.

#### **E. External Compensation for the Sale of Securities to Clients**

AHM's financial advisors are compensated solely through a salary and bonus structure. AHM is not paid any sales, service or administrative fees for the sale of mutual funds or any other investment products.

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

AHM does not charge performance-based fees and therefore has no economic incentive to manage clients' portfolios in any way other than what is in their best interests.

## Item 7. Types of Clients

AHM offers personalized investment management, financial planning and consulting services to high-net-worth individuals and related trusts, charitable entities, pension and profit sharing plans, corporations and other business entities. Although AHM provides investment services to various types of clients mentioned, the services are conditioned upon meeting the following certain minimum criteria established by AHM.

AHM generally requires a minimum account value of \$250,000 for consulting arrangements, and a \$1,000,000 minimum for managed supervisory accounts. AHM may waive the required minimum account values in special circumstances, and reserves the right to make exceptions to such minimum account values in its sole discretion. Please note that for account values less than \$250,000 for consulting arrangements and \$1,000,000 for managed supervisory accounts, clients may be able to obtain more favorable pricing from other advisors for comparable services.

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

### **A. Methods of Analysis and Investment Strategies**

AHM is responsible for identifying and implementing the methods of analysis used in formulating investment recommendations to clients. The methods of analysis may include quantitative methods for optimizing client portfolios, computer-based risk/return analysis, and statistical and/or computer models utilizing long-term economic criteria. AHM may employ independent third parties to work in conjunction with its executive management team to provide input and guidance for the investment direction communicated by the firm. Such third-party providers will function as a de facto investment committee. In addition, AHM may utilize third-party software to assist in formulating investment recommendations to clients.

#### **A.1. Mutual Funds, Exchange-Traded Funds, Independent Investment Managers, Pooled Investment Vehicles**

AHM may recommend (i) independent managers to manage client assets; (ii) no-load and load-waived mutual funds and individual securities (including fixed income instruments); and (iii) pooled investment vehicles. Such management styles will include, among others, large-cap, mid-cap and small-cap value, growth and core; international and emerging markets; and alternative investments. AHM may also assist the client in selecting one or more appropriate manager(s) for all or a portion of the client's portfolio. Such managers will typically manage assets for clients who commit to the manager a minimum amount of assets established by that manager—a factor that will be taken into account when recommending managers to clients.

A description of the criteria to be used in formulating an investment recommendation for mutual funds, ETFs, individual securities (including fixed-income securities), managers and pooled investment vehicles is set forth below.

AHM has formed relationships with third-party vendors that

- provide a technological platform for separate account management
- prepare performance reports
- perform due diligence monitoring of mutual funds, managers, and pooled investment vehicles
- perform billing and certain other administrative tasks

AHM may utilize additional independent third parties to assist in recommending and monitoring individual securities, mutual funds, managers and pooled investment vehicles to clients as appropriate under the circumstances.

AHM reviews certain quantitative and qualitative criteria related to mutual funds and managers to formulate investment recommendations to its clients. Quantitative criteria may include

- the performance history of a mutual fund or manager evaluated against that of its peers and other benchmarks
- an analysis of risk-adjusted returns

- an analysis of the manager's contribution to the investment return (e.g., manager's alpha), standard deviation of returns over specific time periods, sector and style analysis
- the fund, sub-advisor or manager's fee structure
- the relevant portfolio manager's tenure

Qualitative criteria used in recommending mutual funds or managers include the investment objectives and/or management style and philosophy of a mutual fund or manager; a mutual fund or manager's consistency of investment style; and employee turnover and efficiency and capacity. AHM will discuss relevant quantitative and qualitative factors pertaining to its recommendations with clients prior to a client's determination to retain a mutual fund or manager.

Quantitative and qualitative criteria related to mutual funds and managers are reviewed by AHM on a quarterly basis or such other interval as mutually agreed upon by the client and AHM. In addition, mutual funds or managers are reviewed to determine the extent to which their investments reflect efforts to time the market, or evidence style drift such that their portfolios no longer accurately reflect the particular asset category attributed to the mutual fund or manager identified by AHM (both of which are negative factors in implementing an asset allocation structure). Based on its review, AHM will make recommendations to clients regarding the retention or discharge of a mutual fund or manager.

AHM may negotiate reduced account minimum balances and reduced fees with managers under various circumstances (e.g., for clients with minimum level of assets committed to the manager for specific periods of time, etc.). There can be no assurance that clients will receive any reduced account minimum balances or fees, or that all clients, even if apparently similarly situated, will receive any reduced account minimum balances or fees available to some other clients. Also, account minimum balances and fees may significantly differ between clients. Each client's individual needs and circumstances will determine portfolio weighting, which can have an impact on fees given the funds or managers utilized. AHM will endeavor to obtain equal treatment for its clients with funds or managers, but cannot assure equal treatment.

AHM will regularly review the activities of mutual funds and managers selected by the client. Clients that engage managers or who invest in mutual funds should first review and understand the disclosure documents of those managers or mutual funds, which contain information relevant to such retention or investment, including information on the methodology used to analyze securities, investment strategies, fees and conflicts of interest. Similarly, clients qualified to invest in pooled investment vehicles should review the private placement memoranda or other disclosure materials relating to such vehicles before making a decision to invest.

## **A.2. Material Risks of Investment Instruments**

AHM typically invests in open-end mutual funds and exchange-traded funds for the vast majority of its clients. However, for certain clients, AHM may effect transactions in the following types of securities:

- Equity securities
- Warrants and rights

- Mutual fund securities
- Exchange-traded funds
- Corporate debt securities, commercial paper and certificates of deposit
- Municipal securities
- U.S. government securities
- Private placements
- Option contracts on securities
- Pooled investment vehicles
- Structured products
- Government and agency mortgage-backed securities
- Corporate debt obligations
- Mortgage-backed securities
- Collateralized obligations

#### **A.2.a. Equity Securities**

Investing in individual companies involves inherent risk. The major risks relate to the company's capitalization, quality of the company's management, quality and cost of the company's services, the company's ability to manage costs, efficiencies in the manufacturing or service delivery process, management of litigation risk, and the company's ability to create shareholder value (i.e., increase the value of the company's stock price). Foreign securities, in addition to the general risks of equity securities, have geopolitical risk, financial transparency risk, currency risk, regulatory risk and liquidity risk.

#### **A.2.b. Warrants and Rights**

AHM may invest in warrants and rights. Warrants are securities, typically issued with preferred stock or bonds, that give the holder the right to purchase a given number of shares of common stock at a specified price and time. The price of the warrant usually represents a premium over the applicable market value of the common stock at the time of the warrant's issuance. Warrants have no voting rights with respect to the common stock, receive no dividends and have no rights with respect to the assets of the issuer.

Investments in warrants and rights involve certain risks, including the possible lack of a liquid market for the resale of the warrants and rights, potential price fluctuations due to adverse market conditions or other factors, and failure of the price of the common stock to rise. If the warrant is not exercised within the specified time period, it becomes worthless.

#### **A.2.c. Mutual Fund Securities**

Investing in mutual funds carries inherent risk. The major risks of investing in a mutual fund include the quality and experience of the portfolio management team and its ability to create fund value by investing in securities that have positive growth, the amount of individual company diversification, the type and amount of industry diversification, and the type and amount of sector diversification within specific industries. In addition, mutual funds tend to be



tax inefficient and therefore investors may pay capital gains taxes on fund investments while not having yet sold the fund.

#### **A.2.d. Exchange-Traded Funds (“ETFs”)**

AHM may invest in ETFs (which may, in turn, invest in equities, bonds, and other financial vehicles). ETFs are investment companies whose shares are bought and sold on a securities exchange. An ETF holds a portfolio of securities designed to track a particular market segment or index. Some examples of ETFs are SPDRs<sup>®</sup>, streetTRACKS<sup>®</sup>, DIAMONDS<sup>SM</sup>, NASDAQ 100 Index Tracking Stock<sup>SM</sup> (“QQQs<sup>SM</sup>”), iShares<sup>®</sup> and VIPERs<sup>®</sup>. The funds could purchase an ETF to gain exposure to a portion of the U.S. or foreign market. The funds, as a shareholder of another investment company, will bear their pro rata portion of the other investment company’s advisory fee and other expenses, in addition to their own expenses.

Investing in ETFs involves risk. Specifically, ETFs, depending on the underlying portfolio and its size, can have wide price (bid and ask) spreads, thus diluting or negating any upward price movement of the ETF or enhancing any downward price movement. Also, ETFs require more frequent portfolio reporting by regulators and are thereby more susceptible to actions by hedge funds that could have a negative impact on the price of the ETF. Certain ETFs may employ leverage, which creates additional volatility and price risk depending on the amount of leverage utilized, the collateral and the liquidity of the supporting collateral.

Further, the use of leverage (i.e., employing the use of margin) generally results in additional interest costs to the ETF. Certain ETFs are highly leveraged and therefore have additional volatility and liquidity risk. Volatility and liquidity can severely and negatively impact the price of the ETF’s underlying portfolio securities, thereby causing significant price fluctuations of the ETF.

#### **A.2.e. Corporate Debt, Commercial Paper, and Certificates of Deposit**

Fixed income securities carry additional risks than those of equity securities described above. These risks include the company’s ability to retire its debt at maturity, the current interest rate environment, the coupon interest rate promised to bondholders, legal constraints, jurisdictional risk (U.S or foreign) and currency risk. If bonds have maturities of ten years or greater, they will likely have greater price swings when interest rates move up or down. The shorter the maturity the less volatile the price swings. Foreign bonds also have liquidity and currency risk.

Commercial paper and certificates of deposit are generally considered safe instruments, although they are subject to the level of general interest rates, the credit quality of the issuing bank and the length of maturity. With respect to certificates of deposit, depending on the length of maturity there can be pre-payment penalties if the client needs to convert the certificate of deposit to cash prior to maturity.

#### **A.2.f. Municipal Securities**

Municipal securities carry additional risks than those of corporate and bank-sponsored debt securities described above. These risks include the municipality’s ability to raise additional tax

revenue or other revenue (in the event the bonds are revenue bonds) to pay interest on its debt and to retire its debt at maturity. Municipal bonds are generally tax free at the federal level, but may be taxable in individual states other than the state in which both the investor and municipal issuer is domiciled.

#### **A.2.g. U.S. Government Securities**

Peregrine may invest in U.S. government securities. U.S. government securities include securities issued by the U.S. Treasury and by U.S. government agencies and instrumentalities. U.S. government securities may be supported by the full faith and credit of the United States.

#### **A.2.h. Private Placements**

Private placements carry significant risk in that companies using the private placement market conduct securities offerings that are exempt from registration under the federal securities laws, which means that investors do not have access to public information and such investors are not provided with the same amount of information that they would receive if the securities offering was a public offering. Moreover, many companies using private placements do so to raise equity capital in the start-up phase of their business, or require additional capital to complete another phase in their growth objective. In addition, the securities issued in connection with private placements are restricted securities, which means that they are not traded on a secondary market, such as a stock exchange, and they are thus illiquid and cannot be readily converted to cash.

#### **A.2.i. Option Contracts on Securities**

A call option is a contract under which the purchaser of the call option, in return for a premium paid, has the right to buy the security (or index) underlying the option at a specified price at any time during the term of the option. The writer of the call option, who receives the premium, has the obligation upon exercise of the option to deliver the underlying security against payment of the exercise price. A put option gives its purchaser, in return for a premium, the right to sell the underlying security at a specified price during the term of the option. The writer of the put, who receives the premium, has the obligation to buy, upon exercise of the option, the underlying security (or a cash amount equal to the value of the index) at the exercise price. The amount of a premium received or paid for an option is based upon certain factors, including the market price of the underlying security, the relationship of the exercise price to the market price, the historical price volatility of the underlying security, the option period and interest rates.

#### **A.2.j. Pooled Investment Vehicles**

A pooled investment vehicle, such as a commodity pool or investment company, is generally offered only to investors who meet specified suitability, net worth and annual income criteria. Pooled investment vehicles sell securities through private placements and thus are illiquid and subject to a variety of risks that are disclosed in each pooled investment vehicle's confidential private placement memorandum or disclosure document. Investors should read these documents carefully and consult with their professional advisors prior to committing

investment dollars. Because many of the securities involved in pooled investment vehicles do not have transparent trading markets from which accurate and current pricing information can be derived, or in the case of private equity investments where portfolio security companies are privately held with no publicly traded market, AHM will be unable to monitor or verify the accuracy of such performance information.

#### **A.2.k. Structured Products**

Structured products are designed to facilitate highly customized risk-return objectives. While structured products come in many different forms, they typically consist of a debt security that is structured to make interest and principal payments based upon various assets, rates or formulas. Many structured products include an embedded derivative component. Structured products may be structured in the form of a security, in which case these products may receive benefits provided under federal securities law, or they may be cast as derivatives, in which case they are offered in the over-the-counter market and are subject to no regulation.

Investment in structured products includes significant risks, including valuation, liquidity, price, credit and market risks. One common risk associated with structured products is a relative lack of liquidity due to the highly customized nature of the investment. Moreover, the full extent of returns from the complex performance features is often not realized until maturity. As such, structured products tend to be more of a buy-and-hold investment decision rather than a means of getting in and out of a position with speed and efficiency.

Another risk with structured products is the credit quality of the issuer. Although the cash flows are derived from other sources, the products themselves are legally considered to be the issuing financial institution's liabilities. The vast majority of structured products are from high investment grade issuers only. Also, there is a lack of pricing transparency. There is no uniform standard for pricing, making it harder to compare the net-of-pricing attractiveness of alternative structured product offerings than it is, for instance, to compare the net expense ratios of different mutual funds or commissions among broker-dealers.

#### **A.2.l. Government and Agency Mortgage-Backed Securities**

The principal issuers or guarantors of mortgage-backed securities are the Government National Mortgage Association ("GNMA"), Fannie Mae ("FNMA") and the Federal Home Loan Mortgage Corporation ("FHLMC"). GNMA, a wholly owned U.S. government corporation within the Department of Housing and Urban Development ("HUD"), creates pass-through securities from pools of government-guaranteed (Farmers' Home Administration, Federal Housing Authority or Veterans Administration) mortgages. The principal and interest on GNMA pass-through securities are backed by the full faith and credit of the U.S. government.

FNMA, which is a U.S. government-sponsored corporation owned entirely by private stockholders that is subject to regulation by the secretary of HUD, and FHLMC, a corporate instrumentality of the U.S. government, issue pass-through securities from pools of conventional and federally insured and/or guaranteed residential mortgages. FNMA guarantees full and timely payment of all interest and principal, and FHMLC guarantees timely payment of interest and ultimate collection of principal of its pass-through securities.

Mortgage-backed securities from FNMA and FHLMC are *not* backed by the full faith and credit of the U.S. government.

#### **A.2.m. Corporate Debt Obligations**

Peregrine may invest in corporate debt obligations. Corporate debt obligations include corporate bonds, debentures, notes, commercial paper and other similar corporate debt instruments. Companies use these instruments to borrow money from investors. The issuer pays the investor a fixed or variable rate of interest and must repay the amount borrowed at maturity. Commercial paper (short-term unsecured promissory notes) is issued by companies to finance their current obligations and normally has a maturity of less than nine months. In addition, Peregrine may also invest in corporate debt securities registered and sold in the United States by foreign issuers (Yankee bonds) and those sold outside the U.S. by foreign or U.S. issuers (Eurobonds).

#### **A.2.n. Mortgage-Backed Securities**

AHM may invest in mortgage-backed securities, including pass-through securities and collateralized obligations. Mortgage-backed securities represent interests in a pool of mortgage loans originated by lenders such as commercial banks, savings associations, and mortgage bankers and brokers. Mortgage-backed securities may be issued by governmental or government-related entities, or by non-governmental entities such as special-purpose trusts created by commercial lenders.

Pools of mortgages consist of whole mortgage loans or participations in mortgage loans. The majority of these loans are made to purchasers of between one and four family homes. The terms and characteristics of the mortgage instruments are generally uniform within a pool but may vary among pools. For example, in addition to fixed-rate, fixed-term mortgages, Peregrine may purchase pools of adjustable-rate mortgages, growing equity mortgages, graduated payment mortgages and other types. Mortgage poolers apply qualification standards to lending institutions, which originate mortgages for the pools as well as credit standards and underwriting criteria for individual mortgages included in the pools. In addition, many mortgages included in pools are insured through private mortgage insurance companies.

Mortgage-backed securities differ from other forms of fixed income securities, which normally provide for periodic payment of interest in fixed amounts with principal payments at maturity or on specified call dates. Most mortgage-backed securities, however, are pass-through securities, which means that investors receive payments consisting of a pro rata share of both principal and interest (less servicing and other fees), as well as unscheduled prepayments as loans in the underlying mortgage pool are paid off by the borrowers. Additional prepayments to holders of these securities are caused by prepayments resulting from the sale or foreclosure of the underlying property or refinancing of the underlying loans. As prepayment rates of individual pools of mortgage loans vary widely, it is not possible to accurately predict the average life of a particular mortgage-backed security. Although mortgage-backed securities are issued with stated maturities of up to 40 years, unscheduled or early payments of principal and interest on the mortgages may shorten considerably the securities' effective maturities.

### **A.2.o. Collateralized Obligations**

AHM may invest in collateralized mortgage obligations ("CMOs") that are collateralized by mortgage-backed securities issued by GNMA, FHLMC or FNMA ("mortgage assets"). CMOs are multiple-class debt obligations. Payments of principal and interest on the mortgage assets are passed through to the holders of the CMOs as they are received, although certain classes (often referred to as "tranches") of CMOs have priority over other classes with respect to the receipt of mortgage prepayments. Each tranche is issued at a specific or floating coupon rate and has a stated maturity or final distribution date. Interest is paid or accrues in all tranches on a monthly, quarterly or semi-annual basis. Payments of principal and interest on mortgage assets are commonly applied to the tranches in the order of their respective maturities or final distribution dates, so that generally no payment of principal will be made on any tranche until all other tranches with earlier stated maturity or distribution dates have been paid in full.

AHM may also invest in collateralized debt obligations ("CDOs"), which include collateralized bond obligations ("CBOs"), collateralized loan obligations ("CLOs") and other similarly structured securities. CBOs and CLOs are types of asset-backed securities. A CBO is a trust that is backed by a diversified pool of high-risk, below-investment-grade fixed income securities. A CLO is a trust typically collateralized by a pool of loans, which may include, among others, domestic and foreign senior secured loans, senior unsecured loans, and subordinate corporate loans, including loans that may be rated below investment grade or equivalent unrated loans.

## **B. Investment Strategy and Method of Analysis of Material Risks**

### **B.1. Leverage**

Although AHM, as a general business practice, does not utilize leverage, there may be instances in which exchange-traded funds, other separate account managers and, in very limited circumstances, AHM will utilize leverage. In this regard please review the following:

The use of leverage enhances the overall risk of investment gain and loss to the client's investment portfolio. For example, investors are able to control \$2 of a security for \$1. So if the price of a security rises by \$1, the investor earns a 100% return on their investment. Conversely, if the security declines by \$.50, then the investor loses 50% of their investment. The use of leverage entails borrowing, which results in additional interest costs to the investor.

Broker-dealers who carry customer accounts have a minimum equity requirement when clients utilize leverage. The minimum equity requirement is stated as a percentage of the value of the underlying collateral security with an absolute minimum dollar requirement. For example, if the price of a security declines in value to the point where the excess equity used to satisfy the minimum requirement dissipates, the broker-dealer will require the client to deposit additional collateral to the account in the form of cash or marketable securities. A deposit of securities to the account will require a larger deposit, as the security being deposited is included in the computation of the minimum equity requirement. In addition, when leverage is utilized and the client needs to withdraw cash, the client must sell a disproportionate amount of collateral securities to release enough cash to satisfy the withdrawal amount based upon similar reasoning as cited above.

Regulations concerning the use of leverage are established by the Federal Reserve Board and vary if the client's account is held at a broker-dealer versus a bank custodian. Broker-dealers and bank custodians may apply more stringent rules as they deem necessary.

## **B.2. Short-Term Trading**

Although AHM, as a general business practice, does not utilize short-term trading, there may be instances in which short-term trading may be necessary or an appropriate strategy. In this regard, please read the following:

There is an inherent risk for clients who trade frequently in that high-frequency trading creates substantial transaction costs which in the aggregate, could negatively impact account performance. AHM generally does not engage in high frequency trading but reserves the right to employ such a strategy.

## **B.3. Short Selling**

Short selling involves the sale of a security that is borrowed rather than owned. When a short sale is effected, the investor is expecting the price of the security to decline in value so that a purchase or closeout of the short sale can be effected at a significantly lower price. The primary risks of effecting short sales is the availability to borrow the stock, the unlimited potential for loss, and the requirement to fund any difference between the short credit balance and the market value of the security.

## **B.4. Option Strategies**

Various option strategies give the holder the right to acquire or sell underlying securities at the contract strike price up until expiration of the option. Each contract is worth 100 shares of the underlying security. AHM as part of its investment strategy may employ the following option strategies:

- Covered call writing
- Long call options purchases
- Long put options purchases
- Option spreading
- Short call option strategy
- Short put option strategy
- Equity collars
- Long straddles

### **B.4.a. Covered Call Writing**

Covered call writing is the sale of in-, at-, or out-of-the money call option against a long security position held in the client portfolio. This type of transaction is used to generate income. It also serves to create downside protection in the event the security position declines in value. Income is received from the proceeds of the option sale. Such income may be reduced to the extent it is necessary to buy back the option position prior to its expiration.

This strategy may involve a degree of trading velocity, transaction costs and significant losses if the underlying security has volatile price movement. Covered call strategies are generally suited for companies with little price volatility.

#### **B.4.b. Long Call Option Purchases**

Long call option purchases allow the option holder to be exposed to the general market characteristics of a security without the outlay of capital necessary to own the security. Options are wasting assets and expire (usually within nine months of issuance), and as a result can expose the investor to significant loss.

#### **B.4.c. Long Put Option Purchases**

Long put option purchases allow the option holder to sell or "put" the underlying security at the contract strike price at a future date. If the price of the underlying security declines in value, the value of the long put option increases. In this way long puts are often used to hedge a long stock position. Options are wasting assets and expire (usually within nine months of issuance), and as a result can expose the investor to significant loss.

#### **B.4.d. Option Spreading**

Option spreading usually involves the purchase of a call option and the sale of a call option at a higher contract strike price, both having the same expiration month. The purpose of this type of transaction is to allow the holder to be exposed to the general market characteristics of a security without the outlay of capital to own the security, and to offset the cost by selling the call option with a higher contract strike price. In this type of transaction, the spread holder "locks in" a maximum profit, defined as the difference in contract prices reduced by the net cost of implementing the spread. There are many variations of option spreading strategies; please contact the Options Clearing Corporation for a current Options Risk Disclosure Statement that discusses each of these strategies.

#### **B.4.e. Short Call Option Strategy**

Short call option strategy is highly speculative and has theoretical potential for unlimited loss. The seller (writer) of the call option receives proceeds (premium) from the sale of the option. The expectation is that the value of the underlying security will remain below the contract strike price and the option will expire worthless, allowing the option writer to keep the entire amount of the sale proceeds (premium). Should the value of the underlying security increase above the contract strike price, then the option writer can either purchase the call option at a loss, or through a process of exercise and assignment be forced to sell the stock at the contract strike price. If this happens, the option writer will have to go in the open market and buy an equivalent amount of stock to cover the sale at prices that can be materially higher than the amount received from the sale.

#### **B.4.f. Short Put Option Strategy**

Short put option strategy is highly speculative and has theoretical potential for significant loss. The seller (writer) of the put option receives proceeds (premium) from the sale of the option.



The expectation is that the value of the underlying security will remain above the contract strike price and the option will expire worthless, allowing the option writer to keep the entire amount of the sale proceeds (premium). Should the value of the underlying security decrease below the contract strike price, the option writer can either purchase the put option at a loss, or through a process of exercise and assignment be forced to buy the stock at the contract strike price. If this happens, the option writer will be purchasing the underlying security at a price potentially well above its then-current market value, exposing the investor to potential loss.

#### **B.4.g. Equity Collar**

A collar combines both a cap and a floor. A cap gives the purchaser of the cap the right (for a premium payment), but not the obligation, to receive the difference in the cost on some amount when a specified index rises above the specified "cap rate." A floor is the opposite of a cap—it gives the purchaser of the floor the right (for a premium payment), but not the obligation, to receive the difference in interest payable on an amount when a specified index falls below the specified "floor rate." A collar involving stock is called an "equity collar." In a collar transaction, the buyer of the collar purchases a cap while selling a floor indexed to the same rate or asset. A zero-cost collar results when the premium earned by selling a floor exactly offsets the cap premium.

#### **B.4.h. Long Straddle**

A long straddle is the purchase of a long call and a long put with the same underlying security, expiration date and strike price. This is a speculative trade that may be profitable when volatility is high and will result in a loss when prices of the underlying security are relatively stable.

### **C. Concentration Risk**

Although AHM employs a broad diversification strategy, there may be times when one industry, sector or company is more heavily weighted than others. In such an instance there is the possibility that negative performance of the heavily weighted security will have a greater impact of the overall performance of the portfolio. Clients' who have diversified portfolios, as a general rule, incur less volatility and therefore less fluctuation in portfolio value than those who have concentrated holdings. Concentrated holdings may offer the potential for higher gain, but also offer the potential for significant loss.



## **Item 9. Disciplinary Information**

### **A. Criminal or Civil Actions**

There is nothing to report on this item.

### **B. Administrative Enforcement Proceedings**

There is nothing to report on this item.

### **C. Self-Regulatory Organization Enforcement Proceedings**

There is nothing to report on this item.

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

### **A. Broker-Dealer or Representative Registration**

AHM has an affiliate broker dealer, Fulcrum Securities. AHM does not utilize Fulcrum Securities to custody any advisory assets and does utilize Fulcrum Securities as an executing broker.

### **B. Futures or Commodity Registration**

Neither AHM nor its affiliates are registered as a commodity firm, futures commission merchant, commodity pool operator or commodity trading advisor and do not have an application to register pending.

### **C. Material Relationships Maintained by this Advisory Business and Conflicts of Interest**

Certain managers, members and registered employees of AHM are licensed insurance agents with AHM Financial. With respect to the provision of financial planning services, AHM professionals may recommend insurance products offered by insurance carriers offered through AHM Financial. Please be advised there is a potential conflict of interest in that there is an economic incentive to recommend insurance carriers and other investment products offered through AHM Financial. AHM strives to put its clients' interests first and will only recommend insurance products offered by its affiliate that are appropriate and in the best interest of the client. For products requiring a securities and insurance license, clients may be limited to those insurance carriers that have a selling agreement with AHM's professionals' employing broker-dealer, if any.

AHM acts as a sub-adviser to Mercantile Trust and Savings Bank ("Mercantile") under a separate written contractual agreement and receives a portion of Mercantile's investment advisory fee for managing Mercantile client portfolios.

Dennis Kemper, who is the manager of AHM Asset Management's investment advisory group, serves in his individual capacity as managing member for Universal Star Investors, LLC. This partnership was formed in 2007 and was closed to new investors as of the end of 2009. AHM does not advise Universal Star, solicit or otherwise recommend this private fund.

### **D. Recommendation or Selection of Other Investment Advisors and Conflicts of Interest**

AHM does not receive any remuneration from advisers, investment managers or other service providers that it recommends to clients.

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

### **A. Code of Ethics Description**

In accordance with the Advisers Act, AHM has adopted policies and procedures designed to detect and prevent insider trading. In addition, AHM has adopted a Code of Ethics (the “code”). Among other things, the code includes written procedures governing the conduct of AHM’s advisory and access persons. The code also imposes certain reporting obligations on persons subject to the code. The code and applicable securities transactions are monitored by the Chief Compliance Officer of AHM. AHM, upon written request from the client, will send to the client a copy of its code of ethics.

AHM has policies and procedures in place to ensure the interests of its clients are placed ahead of those of AHM, its affiliates and its employees. For example, there are (i) policies in place to prevent the misappropriation of material non-public information, and (ii) such other policies and procedures reasonably designed to comply with federal and state securities laws.

### **B. Investment Recommendations Involving a Material Financial Interest and Conflicts of Interest**

AHM does not engage in principal trading (i.e., the practice of selling stock to advisory clients from a firm’s inventory or buying stocks from advisory clients into a firm’s inventory). In addition, AHM does not recommend any securities to advisory clients in which it has some proprietary or ownership interest.

### **C. Advisory Firm Purchase of Same Securities Recommended to Clients and Conflicts of Interest**

AHM, its affiliates, employees and their families, trusts, estates, charitable organizations, and retirement plans established by it, may purchase the same securities as are purchased for clients. They also may effect securities transactions for their own accounts which differ from those recommended or effected for other AHM clients. AHM will make a reasonable attempt to trade securities in client accounts prior to trading the securities in its affiliate, corporate, employee or employee related accounts. It is the policy of AHM to place the client’s interests above those of AHM and its employees.

### **D. Client Securities Recommendations or Trades and Concurrent Advisory Firm Securities Transactions and Conflicts of Interest**

AHM, its affiliates, employees and their families, trusts, estates, charitable organizations, and retirement plans established by it may effect securities transactions for their own accounts that differ from those recommended or effected for other AHM clients. AHM will make a reasonable attempt to trade securities in client accounts at or prior to trading the securities in its affiliate,

corporate, employee or employee-related accounts. Trades executed the same day will likely be subject to an average pricing calculation.

## Item 12. Brokerage Practices

### A. Factors Used to Select Broker-Dealers for Client Transactions

AHM may recommend/require that clients establish brokerage accounts with the Schwab Advisor Services division of Charles Schwab & Co., Inc. ("Schwab"), a FINRA-registered broker-dealer, member SIPC, to maintain custody of clients' assets and to effect trades for their accounts. Although AHM may recommend/require that clients establish accounts at Schwab, it is the client's decision to custody assets with Schwab. AHM is independently owned and operated and not affiliated with Schwab.

For AHM client accounts maintained in its custody, Schwab generally does not charge separately for custody services but is compensated by account holders through commissions and other transaction-related or asset-based fees for securities trades that are executed through Schwab or that settle into Schwab accounts.

In certain instances and subject to approval by AHM, AHM will recommend to clients certain broker-dealers and/or custodians based on the needs of the individual client, and taking into consideration the nature of the services required, the experience of the broker-dealer or custodian, the cost and quality of the services, and the reputation of the broker-dealer or custodian. The final determination to engage a broker-dealer or custodian recommended by AHM will be made by and in the sole discretion of the client. The client recognizes that broker-dealers and/or custodians have different cost and fee structures and trade execution capabilities. As a result, there may be disparities with respect to the cost of services and/or the transaction prices for securities transactions executed on behalf of the client. Clients are responsible for assessing the commissions and other costs charged by broker-dealers and/or custodians.

#### A.1. Institutional Trading and Custody Services

Schwab provides AHM with access to its institutional trading and custody services, which are typically not available to Schwab retail investors. These services are generally 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 are maintained in accounts at Schwab Advisor Services. These services are not contingent upon AHM committing to Schwab any specific amount of business (assets in custody or trading commissions). Schwab's brokerage services include the execution of securities transactions, 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.

#### A.2. Other Products and Services

Schwab also makes available to AHM other products and services that benefit AHM but may not directly benefit its clients' accounts. Many of these products and services may be used to service all or some substantial number of AHM's accounts, including accounts not maintained at Schwab. Schwab also makes available to AHM software and other technology that

- provide access to client account data (such as trade confirmations and account statements)
- facilitate trade execution and allocate aggregated trade orders for multiple client accounts
- provide research, pricing and other market data
- facilitate payment of AHM's fees from its clients' accounts
- assist with back-office functions, recordkeeping and client reporting

Schwab also offers other services intended to help AHM manage and further develop its business enterprise. These services may include

- compliance, legal and business consulting
- publications and conferences on practice management and business succession
- access to employee benefits providers, human capital consultants and insurance providers

Schwab may also provide other benefits such as educational events or occasional business entertainment of AHM personnel. In evaluating whether to recommend or require that clients custody their assets at Schwab, AHM may take into account the availability of some of the foregoing products and services and other arrangements as part of the total mix of factors it considers 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.

### **A.3. Independent Third Parties**

Schwab may make available, arrange and/or pay third-party vendors for the types of services rendered to AHM. Schwab may discount or waive fees it would otherwise charge for some of these services or all or a part of the fees of a third-party providing these services to AHM.

## **B. Aggregating Securities Transactions for Client Accounts**

### **B.1. Best Execution**

AHM may recommend/require that clients establish brokerage accounts with the Schwab Advisor Services division of Charles Schwab & Co., Inc. ("Schwab"), a FINRA-registered broker-dealer, member SIPC, to maintain custody of clients and assets and to effect trades for their accounts. Such accounts will be prime broker eligible so that if and when the need arises to effect securities transactions at broker-dealers ("executing brokers") other than with the current custodian, such custodian will accept delivery or deliver the applicable security from/to the executing broker. Schwab charges a "trade away" fee, which is charged against the client account for each trade away occurrence. Other custodians have their own policies concerning prime broker accounts and trade away fees; clients will consult their current custodian for policies and fees.

AHM, pursuant to the terms of its investment advisory agreement with clients, has discretionary authority to determine which securities are to be bought and sold, the price of such securities,

and the commission rates to be paid to effect such transactions. AHM recognizes that the analysis of execution quality involves a number of factors, both qualitative and quantitative. To consider all of these factors, AHM will follow a process in an attempt to ensure that it is seeking to obtain the most favorable execution under the prevailing circumstances when placing client orders. These factors include but are not limited to

- the financial strength, reputation and stability of the broker
- the efficiency with which the transaction is effected
- the ability to effect prompt and reliable executions at favorable prices (including the applicable dealer spread or commission, if any)
- the availability of the broker to stand ready to effect transactions of varying degrees of difficulty in the future
- the efficiency of error resolution, clearance and settlement
- block trading and positioning capabilities
- performance measurement
- online access to computerized data regarding customer accounts
- availability, comprehensiveness, and frequency of brokerage and research services
- commission rates
- the economic benefit to the client
- related matters involved in the receipt of brokerage services

## **B.2. Directed Brokerage**

### **B.2.a. AHM Recommendations**

AHM typically recommends Schwab Advisor Services as custodian for clients' funds and securities and to execute securities transactions on its clients' behalf.

### **B.2.b. Client-Directed Brokerage**

Occasionally a client may direct AHM to use a particular broker-dealer to execute portfolio transactions for its account or request that certain types of securities not be purchased for its account. Clients who designate the use of a particular broker-dealer should be aware that they will lose any possible advantage AHM derives from aggregating transactions. Such client trades are typically effected after the trades of clients who have not directed the use of a particular broker-dealer. AHM loses the ability to aggregate trades with other AHM advisory clients, potentially subjecting the client to inferior trade execution prices as well as higher commissions.

## **B.3. Security Allocation**

As AHM may be managing accounts with similar investment objectives, AHM may aggregate orders for securities for such accounts. In such event, allocation of the securities so purchased or sold, as well as expenses incurred in the transaction, is made by AHM in the manner it considers to be the most equitable and consistent with its fiduciary obligations to such accounts.

Such aggregate orders may include transactions for accounts for employee benefit plans and private investment vehicles, such as limited partnerships or limited liability companies, in which AHM, its affiliates, principals or employees are among the investors.

AHM's allocation procedures seek to allocate investment opportunities among clients in the fairest possible way, taking into account clients' best interests. AHM will follow procedures to ensure that allocations do not involve a practice of favoring or discriminating against any client or group of clients. Account performance is never a factor in trade allocations.

AHM's advice to certain clients and entities and the action of AHM for those and other clients are frequently premised not only on the merits of a particular investment, but also on the suitability of that investment for the particular client in light of his or her applicable investment objective, guidelines and circumstances. Thus, any action of AHM with respect to a particular investment may, for a particular client, differ or be opposed to the recommendation, advice or actions of AHM to or on behalf of other clients.

#### **B.4. Order Aggregation**

Orders for the same security entered on behalf of more than one client will generally be aggregated (i.e., blocked or bunched) subject to the aggregation being in the best interests of all participating clients. Subsequent orders for the same security entered during the same trading day may be aggregated with any previously unfilled orders. Subsequent orders may also be aggregated with filled orders if the market price for the security has not materially changed and the aggregation does not cause any unintended duration exposure. All clients participating in each aggregated order will receive the average price and, subject to minimum ticket charges and possible step outs, pay a pro rata portion of commissions.

To minimize performance dispersion, "strategy" trades should be aggregated and average priced. However, when a trade is to be executed for an individual account and the trade is not in the best interests of other accounts, then the trade will only be performed for that account. This is true even if AHM believes that a larger size block trade would lead to best overall price for the security being transacted.

#### **B.5. Allocation of Trades**

All allocations will be made prior to the close of business on the trade date. In the event an order is "partially filled," the allocation will be made in the best interests of all the clients in the order, taking into account all relevant factors including, but not limited to, the size of each client's allocation, clients' liquidity needs and previous allocations. In most cases, accounts will get a pro forma allocation based on the initial allocation. This policy also applies if an order is "over-filled."

AHM acts in accordance with its duty to seek best price and execution and will not continue any arrangements if AHM determines that such arrangements are no longer in the best interest of clients.



#### **B.6. Soft Dollar Arrangements**

AHM does not utilize soft dollar arrangements. AHM does not direct brokerage transactions to executing brokers for research and brokerage services.

#### **B.7. Brokerage for Client Referrals**

AHM does not engage in the practice of directing brokerage commissions in exchange for the referral of advisory clients.

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

### **A. Schedule for Periodic Review of Client Accounts or Financial Plans and Advisory Persons Involved**

The review of accounts of high-net-worth and affluent clients, including corporations, partnerships and trusts, is conducted in the first instance by the professional servicing the client relationship. Such professionals are subject to the general authority of AHM's Chief Compliance Officer. The Chief Compliance Officer or his designee(s) must review and approve the opening of each new advisory relationship and oversee reviews of client accounts. The Chief Compliance Officer or his designee(s) is also responsible for ensuring that any significant change in a client's investment strategy or in the concentration of a client's assets is appropriate for and has been reviewed with the client.

### **B. Review of Client Accounts on Non-Periodic Basis**

AHM may perform *ad hoc* reviews on an as-needed basis if there have been material changes in the client's investment objectives or risk tolerance, or a material change in how AHM formulates investment advice.

### **C. Content of Client-Provided Reports and Frequency**

All investment advisory clients receive customized performance reports of their accounts as well as comparative performance of underlying benchmark market indices and of their benchmark composite index on a quarterly basis. Investment advisory clients also receive standard account statements from the custodian of their accounts on a monthly basis, but no less than frequently than quarterly. Financial planning clients do not normally receive investment reports. There are no post-plan reviews unless engaged to do so by the client.

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

### **A. Economic Benefits Provided to the Advisory Firm from External Sources and Conflicts of Interest**

AHM does not pay for client referrals and does not receive any compensation other than advisory fees charged to its clients.

### **B. Advisory Firm Payments for Client Referrals**

AHM may enter into agreements with solicitors who will refer prospective advisory clients to AHM in return for a portion of the ongoing investment advisory fee. Such arrangements will comply with the cash solicitation requirements of Rule 206(4)-3 under the Investment Advisers Act of 1940. Generally, these requirements require the solicitor to have a written agreement with AHM. The solicitor must provide the client with a disclosure document describing the fees it receives from AHM, whether those fees represent an increase in fees that AHM would otherwise charge the client, and whether an affiliation exists between AHM and the solicitor.

## Item 15. Custody

Clients will receive at least quarterly account statements directly from their custodian containing a description of all activity, cash balances and portfolio holdings in the client's account. AHM urges that clients compare the account balance(s) shown on their AHM Quarterly Portfolio Review to the quarter-end balance(s) on their custodian's monthly statement. The custodian's statement is the official record of the account.

## **Item 16. Investment Discretion**

Clients may grant a limited power of attorney to AHM with respect to trading activity in their accounts by signing the appropriate custodian limited power of attorney form. In those cases, AHM will exercise full discretion as to the nature and type of securities to be purchased and sold, the amount of securities for such transactions, and the amount of commissions to be paid.. Investment limitations may be designated by the client as outlined in the investment advisory agreement.

## Item 17. Voting Client Securities

AHM, as an SEC-registered investment advisor, often has voting power with respect to securities in client accounts. AHM owes certain fiduciary duties with respect to the voting of proxies. These fiduciary duties include (1) the duty of care which is required to monitor corporate events and to vote the proxies, and (2) the duty of loyalty which is required to vote proxies in a manner consistent with the best interests of the client and to put the client's interests before its own interests. In keeping with its fiduciary duties, AHM has adopted a Proxy Voting Policy which sets forth policies and procedures designed to ensure that AHM votes each client's securities in the best interests of the client.

AHM will be authorized to take action and render any advice with respect to the voting of proxies for securities held in the client's account. AHM will make an independent valuation for each applicable company held in the client's account in accordance with its fiduciary obligations as detailed in this policy. Clients may contact AHM's Managing Member for information about how AHM voted with respect to any of the securities held in their account.

Except as required by applicable law, AHM will not be obligated to render advice or take any action on behalf of the client with respect to assets presently or formerly held in the client's account which become the subject of any legal proceedings, including bankruptcies.

As a general rule, AHM will vote all proxies relating to a particular proposal the same way for all client accounts holding the security in accordance with AHM's Proxy Voting Policy, unless a client specifically instructs in writing to vote such client's securities otherwise. When making proxy voting decisions, AHM may seek advice or assistance from third-party consultants, such as proxy voting services or legal counsel.

A copy of AHM's Proxy Voting Policy will be provided upon receipt of a written request to: Chief Compliance Officer, AHM Management, LLC, 11975 Westline Industrial Drive, St. Louis, MO, 63146.

## **Item 18. Financial Disclosures**

### **A. Balance Sheet**

AHM does not require the prepayment of fees of \$1,200 or more, six months or more in advance.

### **B. Financial Conditions Reasonably Likely to Impair Advisory Firm's Ability to Meet Commitments to Clients**

AHM does not have any financial issues that would impair its ability to provide services to clients.

### **C. Bankruptcy Petitions During the Past Ten Years**

There is nothing to report on this item.

## Cover Page

# Brochure Supplement

April 2, 2012

## **AHM Asset Management, LLC**

SEC File No. 801-56226

11975 Westline Industrial Drive  
St. Louis, MO 63146

phone: 314-523-8800  
email: [dkemper@ahmfinancialgroup.com](mailto:dkemper@ahmfinancialgroup.com)  
website: [www.ahmfinancialgroup.com](http://www.ahmfinancialgroup.com)

This brochure supplement provides information about Dennis Kemper that supplements the AHM Asset Management, LLC, brochure. You should have received a copy of that brochure. If you did not receive an AHM Asset Management, LLC, brochure or if you have any questions about the contents of this supplement, please contact Dennis Kemper at [dkemper@ahmfinancialgroup.com](mailto:dkemper@ahmfinancialgroup.com) or by phone at 314-523-8800.

Additional information about AHM Asset Management, LLC, is available on the SEC's website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).



## Investment Advisor Representatives

### Dennis Kemper

Dennis Kemper (b. 1950) is a senior portfolio manager with AHM Asset Management, LLC.

#### Educational Background

Miami University Graduate School, Oxford, Ohio	1976–78
Concordia Seminary, St. Louis, Missouri	1973–74
BA, Concordia Senior College, Ft. Wayne, Indiana	1972
St. Paul's College, Concordia, Missouri	1968–1970

#### Business Background

Senior Vice President Mercantile Trust Company, St. Louis, Missouri	1997–1998
Regional Vice President, Trust Boatmen's Bank of Tennessee, St. Louis, Missouri	1996–1997
Unit Vice President and Senior Portfolio Manager Boatmen's Trust Company, St. Louis, Missouri	1984–1995

#### Disciplinary Information

Dennis Kemper does not have any disciplinary action to report. Public information concerning Mr. Kemper's registration as an investment advisor representative may be found by accessing the SEC's public disclosure site at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).

#### Other Business Activities

Mr. Kemper serves as the managing member for Universal Star Investors, LLC, which was created to facilitate the investment of certain clients in an alternative energy company. Other than through Mr. Kemper's affiliation with AHM Asset and Universal Star Investors, AHM Asset and Universal Star Investors are not affiliated. Neither Mr. Kemper nor AHM Asset nor any of its affiliate companies receive fees from the partnership (other than expenses for accounting/legal), and do not charge investment advisory fees to clients invested in Universal Star Investors, LLC.

In addition, Mr. Kemper owns and operates DKemp Consulting, LLC. Such business is used for trustee services for certain trusts that were established as a result of personal and familial relationships other than as a result of Mr. Kemper's business relationship with AHM.

#### Additional Compensation

Other than income derived from servicing AHM Asset's advisory clients, Mr. Kemper does not receive additional compensation.

## Joseph Pesnell

Joseph Pesnell (b. 1948) is a senior portfolio manager with AHM Asset Management, LLC.

### Educational Background

BS, University of Missouri, Columbia, Missouri	1970
--	------

### Professional Designations and Licenses

Chartered Financial Analyst® (CFA®)

### Business Background

Senior Vice President and Investment Advisor Bank of America, St. Louis, Missouri	1972–2001
--	-----------

Chartered Financial Analyst Bank of America, St. Louis, Missouri	1977
---	------

### Disciplinary Information

Joseph Pesnell does not have any disciplinary action to report. Public information concerning Mr. Pesnell's registration as an investment advisor representative may be found by accessing the SEC's public disclosure site at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).

### Other Business Activities

Mr. Pesnell is not involved in any outside business activities.

### Additional Compensation

Other than income derived from servicing AHM Asset's advisory clients, Mr. Pesnell does not receive additional compensation.

## **Supervision**

Supervision of AHM investment advisor representatives is performed by Gery Sadzewicz, Chief Compliance Officer, through reviews of internal transaction and security holdings reports, electronic and physical correspondence, and other internal reports as mandated by the firm and its regulatory authorities. Mr. Sadzewicz can be reached at 815-782-1250.

## Appendix A: Professional Designations - Qualifications and Related Criteria

### Chartered Financial Analyst® (CFA®)

The Chartered Financial Analyst® (CFA®) designation is conferred by the CFA Institute. A financial analyst seeking membership to the CFA Institute must:

- meet eligibility requirements
- fully comply with the CFA Code of Ethics and Standards of Professional Conduct
- study books, journal articles, and other readings designated by the Institute
- successfully pass three examinations, each approximately six hours in length and administered by the CFA Institute

The candidate for the CFA designation must have at least a single current and principal engagement:

- in financial analysis of securities investment for a bank, investment company, insurance company, or other financial services or investment management firms
- as an assistant, associate, or full professor or dean of a college or university, who teaches and/or researches
- as an economist involved in financial analysis of securities investment
- as a portfolio manager
- as a financial analyst of securities investment within a public agency
- as a financial analyst of securities investment for a corporate pension, profit sharing or other retirement fund
- as a manager of financial analysts or portfolio managers involved with securities investment and who, before assumption of management obligations, was a financial analyst or portfolio manager

The CFA is awarded to candidates who have passed the examinations and met the other requirements specified by the CFA Institute.