

Part 2A of Form ADV: Firm Brochure

Item 1 Cover Page

Name of Investment Advisor: Merit Investment Management, LLC.
Address: Delaware Corporate Center I, 1 Righter Parkway, Suite 120, Wilmington, DE, 19803
Phone Number: 302-478-4300
Website: www.meritinvestmentmanagement.com

This brochure provides information about the qualifications and business practices of Merit Investment Management. If you have any questions about the contents of this brochure, please contact us at 302-478-4300. The information in this brochure has not been approved or verified by the United States Securities and Exchange Commission or by any state securities authority.

Additional information about Merit Investment Management is also available at the SEC's website at www.advisorinfo.sec.gov.

Item 2 Material Changes

Not Applicable

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Item 4 Advisory Business

Merit Investment Management (“Merit”) has been in operation since 2009. Merit is owned by Christopher Gildea, J. Scott McGraw, and Tower Group, Inc. Merit is actively engaged in providing investment management and investment advisory services to institutions and individual clients. Such services may include one of the following:

1. Assist clients in the development and subsequent modification of appropriate investment objectives, guidelines, and restrictions;
2. Determine an appropriate investment strategy, consistent with the investment objectives, guidelines, and restrictions established by clients and review and modify such strategy through meetings and consultations with clients from time to time;
3. Implement investment strategies through the purchase and sale of securities and/or other financial instruments and the investment and re-investment of cash balances for client accounts;
4. Provide information and instructions to the custodians of client accounts so that transactions for the accounts are settled in an accurate and timely manner, and reconcile records with those of clients’ custodians (or trustees) on a periodic basis;
5. Monitor the individual securities or financial instruments held in client accounts so that the investments and overall portfolio remain consistent with the objectives, guidelines, and restrictions;
6. Value securities and other financial instruments held in the portfolio;
7. Evaluate proxy statements and proposed corporate actions, provide advice related to proxy voting and voting proxies; and
8. Furnish reports to clients on a periodic basis concerning account activity and performance.

Merit does not provide all the services listed above to all clients.

As of 03/27/12, Merit managed approximately \$151.2 million in assets on a discretionary basis.

Item 5 Fees and Compensation

Merit offers investment management and investment advisory services for long-only dividend income and long-short equity strategies. In most instances, accounts are managed on a fully discretionary basis. Merit is compensated for such services on the basis of fees calculated as a percentage of assets under management and/or performance-based fees. See Item 6 entitled *Performance-based Fees and Side-by-Side Management* on page 6 for additional information.

Fees based on percentage of assets under management are calculated by multiplying the fair market value of the cash and securities in the portfolio as of the close of the calendar quarter by the applicable fee rate(s) prorated for any partial quarter.

Performance-based fees are calculated by multiplying the total annual return of the portfolio as of the close of the calendar year by the applicable performance sharing percentage, subject to contingent, deferred vesting, and/or high-water mark provisions.

Merit's fees are generally payable quarterly in arrears. Fees are generally deducted from client accounts subject to terms and conditions that are detailed in each client's Investment Management Agreement ("IMA"). Alternative frequency of payments and/or methods of calculation may be available, where appropriate and upon the client's request.

Fee Schedule – Long-only dividend income strategies:

Merit's standard fee schedule for Long-only dividend income strategies is as follows:

ON CASH AND SECURITIES TOTALING:

1.00% on the first \$10,000,000 plus
0.75% on the next \$10,000,000 plus
0.50% on the next \$30,000,000 plus
0.40% on assets over \$50,000,000
Minimum Quarterly Fee: \$2,500

Fee Schedule – Long-short equity strategies:

Merit's standard fee schedule for Long-short equity strategies is as follows:

ON CASH AND SECURITIES TOTALING:

2.00% on all assets plus performance-based fees equal to 20.0% of the net appreciation of the account; subject to a loss carry forward; often referred to as a "high water mark". Furthermore, the performance fee is payable over 3 allocation periods as follows:

- 33.3% immediately following the calendar year the appreciation is generated
- 33.3% immediately following the subsequent 12 month period
- 33.4% immediately following the subsequent 24 month period

Different fee schedules may be available to accounts with higher amounts of assets under management. In certain circumstances, fees may be subject to negotiation, and fees may be modified for certain clients. The reasons for modifications include the complexity and level of service provided, the number of different accounts and the total assets under management for that client and related clients, other services provided by the advisor, or other circumstances that Merit deems relevant. Certain accounts of persons affiliated with Merit may be managed without fees or at reduced fees.

Merit's fees do not include other expenses incurred by clients in connection with our investment advisory services such as brokerage costs. See Item 12 entitled *Brokerage Practices* on page 12 for additional information.

Investment management and investment advisory contracts between Merit and its clients can be terminable at any-time or have lock-up agreements depending upon the specific circumstances and needs of particular clients. In the event of termination, advisory fees will be prorated over the period during which investment management or investment advisory services were provided.

Merit offers investment management and investment advisory services for long-only dividend income and long-short equity strategies. In most instances, accounts are managed on a fully discretionary basis. Merit is compensated for such services on the basis of fees calculated as a percentage of assets under management and/or performance-based fees.

Long-only dividend income strategy accounts generally pay an asset-based fee whereas long-short equity accounts usually pay an asset-based fee plus a performance-based fee. Due to the nature of performance-based fee schedules, there is the potential for conflicts of interest related to the favoring of performance-fee based accounts. Merit has established policies and procedures designed to prevent any preference or favoring. For instance, trades involving the same security are executed in a single order and allocated based on an average price.

In addition, Merit has adopted a Code of Ethics that was written and implemented in an effort to ensure no potential conflict results in unfair treatment of any client account. To obtain a copy of the Code of Ethics, please contact Scott McGraw at jscottmcgraw@meritinvestmentmanagement.com or by calling 302-478-4300.

Performance fees can only be utilized by accredited individuals.

The federal securities laws define the term accredited investor in Rule 501 of Regulation D as:

1. a bank, insurance company, registered investment company, business development company, or small business investment company;
2. an employee benefit plan, within the meaning of the Employee Retirement Income Security Act, if a bank, insurance company, or registered investment adviser makes the investment decisions, or if the plan has total assets in excess of \$5 million;
3. a charitable organization, corporation, or partnership with assets exceeding \$5 million;
4. a director, executive officer, or general partner of the company selling the securities;
5. a business in which all the equity owners are accredited investors;
6. a natural person who has individual net worth, or joint net worth with the person's spouse, that exceeds \$2 million at the time of the purchase;
7. a natural person with income exceeding \$200,000 in each of the two most recent years or joint income with a spouse exceeding \$300,000 for those years and a reasonable expectation of the same income level in the current year; or
8. a trust with assets in excess of \$5 million, not formed to acquire the securities offered, whose purchases a sophisticated person makes.

Item 7 Types of *Clients*

Merit provides investment management and investment advisory services to institutional accounts such as insurance companies, investment companies, and to high-net worth individuals. Merit generally requires a minimum of \$1 million in assets for the establishment of investment management or advisory account, although exceptions may be made if circumstances warrant on a case-by-case basis. Accounts may also be opened at smaller asset levels if growth is expected within a reasonable timeframe, if a relationship exists between that account and an existing account, if the account is one of several accounts referred to Merit by the same person or entity, or if Merit deems it appropriate.

Clients are generally required to enter into an investment management agreement (“IMA”) prior to the establishment of an account with Merit.

Merit will not enter into an investment management agreement with any prospective client whose investment objectives, guidelines, and restrictions are deemed incompatible with Merit’s basic investment philosophy or strategies, or if the prospective client’s investment objectives, guidelines, and restrictions are deemed unduly restrictive.

Merit offers two investment strategies: a long-only dividend income strategy and a long-short equity strategy. Our strategies are formed by selecting a limited number of investments that form concentrated portfolios (between 20 and 40 long investments in each).

Merit's long-only dividend income strategy is designed to generate an attractive current income yield while limiting market related volatility. Merit utilizes a combination of quantitative and fundamental screens to identify investment opportunities for its dividend income strategy. The dividend income strategy employs frequent trading as a mechanism and therefore increased brokerage and transactions costs are contributing factors in its total return.

Merit's long-short equity strategy is designed to generate absolute returns while limiting market related volatility. Merit employs a fundamental research oriented approach for its long-short strategy. We integrate macroeconomic, industry, and company-specific data in order to determine the intrinsic value of an investment. For long-short equity strategy accounts, Merit will invest in a concentrated portfolio of long securities while also short selling securities that it believes to be overvalued based on several factors.

The long-short equity strategy will be limited to investors that satisfy the following financial criteria:

- A natural person who or a company that immediately after entering into the contract has at least \$750,000 under the management of the investment advisor; or
- A natural person who or a company that the investment adviser entering into the contract (and any person acting on his behalf) reasonably believes, immediately prior to entering into the contract, has a net worth (together, in the case of a natural person, with assets jointly held by spouse) of more than \$1,500,000 at the time the contract is entered into.

Investing in securities involves risk of loss that clients should be prepared to bear.

Item 9 Disciplinary Information

None.

Item 10 Other Financial Industry Activities and Affiliations

Tower Group, Inc. (“Tower”), an insurance holding company, owns 25% or more of Merit and is also client of Merit. Merit manages Tower’s account(s) on a discretionary basis and management does not believe there are any material conflicts of interest with clients.

Merit has adopted a Code of Ethics that was written and implemented in an effort to ensure no potential conflict results in unfair treatment of any client account. To obtain a copy of the Code of Ethics, please contact Scott McGraw at jscottmcgraw@meritinvestmentmanagement.com or by calling 302-478-4300.

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

Merit permits its employees to engage in person securities transactions, and to purchase and sell securities that may be held by or may be suitable for investment by client accounts. Personal securities transactions may arise potential conflicts of interest with the interests of Merit clients. Accordingly, Merit has adopted policies (Merit's Code of Ethics) designed to mitigate conflicts of interest and the potential appearance of impropriety in an employee's personal action. In order to ensure compliance with this policy, each Merit employee is required submit duplicate copies of all statements generated by any broker-dealer for that employee's account.

Merit restricts the purchase and sale by its personnel for their own accounts for securities that have been or are being considered for purchase or sale for client accounts. For across the board trades, personnel are not to engage in a transaction in the same security while an order for a client's account is pending or within two days before and until after all pending transactions for client accounts have completed.

Merit has adopted a Code of Ethics that was written and implemented in an effort to ensure no potential conflict results in unfair treatment of any client account. To obtain a copy of the Code of Ethics, please contact Scott McGraw at jsmcgraw@Meritinvestmentmanagement.com or by calling 302-478-4300.

Research and Other Soft Dollar Benefits:

Merit will endeavor to select those brokers or dealers which will provide the best services at the lowest commission rates possible. The reasonableness of commissions is based on the broker's ability to provide professional services, competitive commission rates, research and other services, which will help Merit in providing investment management services to clients. Merit may, therefore, use a broker who provides useful research and securities transactions services even though lower commission may be charged by a broker who offers no research services and minimal securities transactions assistance. Research services may be useful for the account for which the particular transaction was effected. The executive officers of Merit conduct regular meetings to review broker commissions.

Item 13 Review of Accounts

Merit conducts in-depth reviews of client accounts on an annual basis. Informal update discussions may take place on a quarterly or semi-annual basis. Clients may request interim reviews at any time to discuss their investment account. Merit encourages clients to review their investment strategy and update Merit when changes occur in their investment objectives. Managing members, either Scott McGraw or Chris Gildea, will conduct Merit reviews of client accounts.

Item 14 *Client Referrals and Other Compensation*

Merit may compensate an insurance consulting firm, Cohen Strategic Consulting (“CSC”), for professional consulting services in the area of marketing Merit's investment management services to certain insurance companies. In consideration for the consulting services to be performed by CSC under this agreement, Merit will pay CSC a performance fee/commission based on a percentage of the revenues related to the new account. Merit will disclose this arrangement with prospective clients prior to entering into any investment management agreement (“IMA”).

Biography for Michael Cohen:

Michael E. Cohen. Bachelor of Science, Illinois Institute of Technology. Masters of Business Administration, Temple University. Michael A. Cohen is principal of CSC and worked previously at A.M. Best.

Item 15 *Custody*

Merit does not have custody of client funds or securities.

Item 16 Investment Discretion

In most instances, accounts are managed on a fully discretionary basis. Clients are generally required to enter into an investment management agreement (“IMA”) prior to the establishment of an account with Merit.

Merit will not enter into an investment management agreement with any prospective client whose investment objectives, guidelines, and restrictions are deemed incompatible with Merit’s basic investment philosophy or strategies, or if the prospective client’s investment objectives, guidelines, and restrictions are deemed unduly restrictive.

Merit sometimes votes proxies as part of its discretionary authority to manage accounts, depending on the clients' request. When voting proxies, Merit's primary objective is to make voting decisions solely in the best economic interests of its clients. Merit will act in a manner that it deems prudent and diligent and which is intended to enhance the economic value of the underlying securities held in clients' accounts.

Merit has adopted written Proxy Policy Guidelines and Procedures that are designed to ensure that Merit is voting in the best interest of clients. The Proxy Guidelines reflect Merit's general voting positions on specific corporate governance issues and corporate actions. Some issues may require additional analysis prior to voting and may result in a vote being cast that will deviate from the Proxy Guideline. Upon receipt of a client's written request, Merit may also vote proxies for that particular client's account in a particular manner that may differ from the Proxy Guideline. Deviation from the Proxy Guidelines will be documented and maintained in accordance with Rule 204-2 under the Investment Advisors Act of 1940.

Item 18 Financial Information

Not Applicable.

Principal Executive Officers:

- Christopher Eugene Gildea. Born 1969. Bachelor of Science, Boston College, 1992. JD from Suffolk University Law School, 1997. Masters of Business Administration, the Krannert School of Management at Purdue University, 2004. Gardner Lewis Asset Management, Analyst (2004-2010).
- Jeremy Scott McGraw. Born 1972. Bachelor of Science, Boston College, 1994. Masters of Business Administration, The Wharton School at the University of Pennsylvania, 2002. Gardner Lewis Asset Management, Analyst (2005-2009). Bank of America, Associate (2003-2005). Merrill Lynch, Associate, (2002-2003).

Relationship with an issuer of securities:

Merit is 25% or more owned by Tower Group, Inc., a publicly-traded insurance company.