

**Atrato Asset Management LLC  
CRD No. 151620**

**1202 Calle Agua  
Santa Fe, NM 87501**

**Phone: 505-989-9979  
Firm Contact: James Tallent, Manager  
Email: [jim@tallenttribe.com](mailto:jim@tallenttribe.com)**

**April 22, 2013**

**This brochure provides information about the qualifications and business practices of Atrato Asset Management LLC ("AAM"). If you have any questions about the contents of this brochure, please contact us. The information in this brochure has not been approved or verified by the United States Securities and Exchange Commission (the "SEC") or by any state securities authority.**

**AAM is a registered investment adviser. Registration of an investment adviser does not imply any level of skill or training. The oral and written communications of an adviser provide you with information about which you determine to hire or retain an Adviser.**

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

**[This page intentionally left blank]**

## **ITEM 2 – MATERIAL CHANGES**

**Atrato Asset Management LLC is no longer SEC affiliated**

## **ITEM 3 – TABLE OF CONTENTS**

ITEM 2 – MATERIAL CHANGES.....	3
ITEM 3 – TABLE OF CONTENTS .....	3
ITEM 4 – ADVISORY BUSINESS.....	4
ITEM 5 – FEES AND COMPENSATION .....	7
ITEM 6 – PERFORMANCE-BASED FEES AND SIDE-BY-SIDE MANAGEMENT .....	8
ITEM 7 – TYPES OF CLIENTS .....	9
ITEM 8 – METHODS OF ANALYSIS, INVESTMENT STRATEGIES AND RISK OF LOSS .....	9
ITEM 9 – DISCIPLINARY INFORMATION .....	21
ITEM 10 – OTHER FINANCIAL INDUSTRY ACTIVITIES AND AFFILIATIONS .....	21
ITEM 11 – CODE OF ETHICS, PARTICIPATION OR INTEREST IN CLIENT TRANSACTIONS AND PERSONAL TRADING.....	21
ITEM 12 – BROKERAGE PRACTICES .....	23
ITEM 13 – REVIEW OF ACCOUNTS .....	25
ITEM 14 – CLIENT REFERRALS AND OTHER COMPENSATION.....	25
ITEM 15 – CUSTODY .....	27
ITEM 16 – INVESTMENT DISCRETION .....	27
ITEM 17 – VOTING CLIENT SECURITIES .....	27
ITEM 18 – FINANCIAL INFORMATION .....	28
JAMES M. TALLENT – SUPPLEMENTAL EDUCATIONAL AND BACKGROUND INFORMATION .....	29

## **ITEM 4 – ADVISORY BUSINESS**

### **The Firm**

Atrato Asset Management LLC ("AAM") is a limited liability company formed in August 2009 under the laws of the state of Delaware. AAM is registered as an investment adviser with the SEC under the Investment Advisers Act of 1940 (the "Advisers Act").

AAM is owned more than 75% by James M. Tallent, AAM's Manager, Chief Compliance Officer and Principal Member.

### **General Information on Advisory Services**

AAM offers discretionary and non-discretionary investment advisory services to wealthy family groups, individuals, trusts, retirement plans, corporations, charitable organizations and other institutional clients.

AAM does not represent, warrant or imply that the services it provides or the methods of analysis it uses can or will predict future results, successfully identify market tops or bottoms, or insulate clients from losses due to market corrections. The agreement that AAM enters into with its clients states that AAM is not liable to the client for: (a) any loss that the client may suffer by reason of any investment decision made or other action taken or omitted by AAM, except in the case of AAM's negligence, intentional misconduct or bad faith; (b) any loss arising from AAM's adherence to the client's instructions; or (c) any act or failure to act by any custodian or broker. However, nothing in the agreements with clients constitutes a waiver by the clients of any legal right under applicable federal or state securities laws or any other law whose applicability is not permitted to be contractually waived. In the event of any discrepancy or conflict between the information in this brochure and a client's agreement with AAM, the client agreement will control.

As part of AAM's advisory services, AAM assists its clients in developing appropriate asset allocation objectives. However, due to volatile market conditions, and the resulting changes in asset values, the values of client assets may become inconsistent with the client's desired asset allocation objectives. When AAM considers it appropriate, AAM will rebalance the client's portfolio, or recommend changes to rebalance the portfolio. This is likely to result in additional trading costs for clients.

Either AAM or a client may terminate the client agreement at any time by providing 30 days' notice to the other party. In addition, client agreements will terminate automatically on AAM's assignment of the agreement without the client's consent.

### **Discretionary and Non-Discretionary Services**

AAM provides investment supervisory and investment management services to its clients, sometimes on a discretionary basis or for most clients on a non-discretionary basis. In the non-discretionary role, AAM makes recommendations to its clients. It does not have discretion over these client assets, and all investment decisions must be approved by the client before execution.

AAM provides discretionary investment management services to certain clients. When retained on a discretionary basis, AAM makes investment decisions, including retaining and dismissing investment managers, on behalf of the clients consistent with the clients' objectives and suitability, without the clients' prior approval of specific transactions.

AAM is the discretionary investment adviser to two limited liability companies (the "LLCs") that were each created to manage the personal funds of a specific individual. A trust formed by that individual, AAM and Mr. Tallent are the only members of each LLC. The LLCs make real estate, securities and other investments. Each LLC has an independent Manager who determines whether or not to retain AAM as the LLC's investment adviser. AAM receives a management fee and performance allocation for its advisory services provided by the LLCs. Neither of the LLCs is open to other investors. See Item 6 for a discussion of the performance allocation AAM receives from the LLCs.

Whether serving in a discretionary or non-discretionary capacity, AAM generally assists its clients in reviewing, developing and implementing investment policies and strategies, determining appropriate asset allocations (both strategic and tactical), structuring portfolios, making investments to implement each client's investment policies and allocations, and measuring the performance of the client's investments. AAM's investment decisions on behalf of a discretionary client, and AAM's investment recommendations to a non-discretionary client, relate to:

- The retention and termination of investment managers
- Investments in limited partnerships and limited liability company investment funds and other investment vehicles (such as, real estate funds, venture capital funds and private equity funds)
- Investments in other specific securities

#### Minimum Account Size

AAM requests a minimum relationship size of \$1 million to open and maintain an account with AAM. However, AAM may waive this account minimum at its discretion. AAM reserves the right to decline to provide services to any person or firm for any reason. Independent Managers utilized by clients may have program minimums pursuant to their disclosure documents.

#### Assets Under Management

AAM provides continuous and regular supervisory and management services to its clients. As of December 31, 2012, it had approximately \$26.9 million of assets under management, which it manages on a discretionary basis.

#### Types of Investments and Sources of Information

AAM provides investment advice to its clients with respect to limited partnerships and limited liability company investment funds (such as, real estate, oil and gas interests, venture capital and private equity funds) and other investment vehicles.

#### Valuation of Securities

Securities listed on an exchange and traded through the client's brokerage accounts are valued each business day by the respective custodian. AAM does not value such securities. AAM will assist in determining a valuation for private investments that do not have readily available prices or in which the price is not current. In such instances, AAM will value such securities on a best efforts basis. Clients may request details of the Advisor's valuation policies at any time, at no cost.

AAM clients invest in virtually all types of securities, including but not limited to

- Certificates of Deposit
- Commercial paper
- Corporate debt securities
- Exchange-traded funds
- Exchange-listed securities
- Foreign issuers
- Future contracts on tangibles and intangibles
- Municipal securities
- Mutual fund shares
- Options contracts on securities and commodities
- Private placements of securities
- Real estate investments
- Securities traded over-the counter
- U.S. Government securities
- Variable annuities
- Variable life insurance Warrants

When AAM client assets are invested with investment managers, the client's investment managers (and not AAM) recommend and effect investment decisions for the client with respect to individual equity and fixed-income securities and other investments. When AAM client assets are invested with investment funds, then fund managers (and not AAM) make investment decisions for the fund.

The main sources of information used by AAM in making its recommendations are:

- Annual reports, prospectuses and other filings with the SEC
- Company press releases
- Corporate rating services
- Financial newspapers and magazines
- Inspections of corporate activities
- Research materials prepared by others

In making recommendations and decisions as to which investment managers and in which funds AAM clients should invest, AAM also analyzes information derived from personal and/or telephone interviews with managers, onsite visits with managers, and information obtained from fund manager databases, industry publications and other sources (such as, the internet).

#### Family Office Services

In addition to providing the discretionary and non-discretionary investment advisory services described above, AAM also offers its clients a range of services to address the complex financial needs of wealthy families, most of whom also own businesses. Examples of such additional services include, but are not limited to, planning for retirement, education and other major purchases, personal insurance analysis, estate planning review, business succession planning, balance sheet preparation, tax planning, charitable planning and private business management consulting.

### Other Business Services

Neither AAM nor Mr. Tallent conducts any other business activities.

## ITEM 5 – FEES AND COMPENSATION

### Advisory Fees

AAM charges either an annual retainer fee or an asset-based fee for its services. AAM's fees are negotiated, based on factors such as the range of services to be provided, the degree of customization requested, the complexity of the client relationships, the number, nature and size of accounts, and the number of client meetings AAM is expected to attend annually.

Fee schedules are incorporated into client agreements. AAM does not deduct fees from client accounts.

AAM's current fees schedule is as follows:

- Annual retainer fee - negotiable but minimum fee is \$2,500 per quarter billed quarterly in advance.
- Asset-based fee:
  - Generally 1% of first \$10 million of net assets subject to the advisory relationship – billed quarterly in advance.
  - In excess of \$10 million – negotiable.
- Expenses:
  - Two client meetings per year included in fee
  - Expenses of additional meetings and other extraordinary expenses (such as, travel, due diligence and legal) attributable to a client, are reimbursed by clients proportionally as incurred.
- Termination of the agreement prior to quarter end for which client has paid fees in advance – AAM will refund client a pro-rated refund of the prepaid fees, based on the portion of the quarter during which AAM provided services.

On the mutual agreement of AAM and the client, a client's fee schedule may be changed, including a client changing from a retainer fee to an asset-based fee, or vice versa. Any such change will be documented and signed by AAM and the client. In some instances, clients may choose to have an arrangement that is a combination of an annual retainer fee plus an asset-based fee.

### No Compensation from Sales of Securities

AAM and its employees do not receive compensation for the sale of securities or other investment products, including asset-based sales charges or service fees from the sale of mutual funds or other investment products.

### Fees Payable to Third Parties

In addition to AAM's advisory fees, clients are responsible for charges that are not billed by AAM, such as brokerage commissions, service charges, stock transfer fees, and other similar

charges incurred in connection with transactions for client accounts. Such expenses are not shared with AAM.

If clients invest in investment vehicles, such as venture capital funds, real estate funds, open-end or closed-end mutual funds or exchange-traded funds ("ETFs"), such investments increase the cost to the client. In addition to AAM's advisory fee, the client may incur a commission or transaction fee when the interest in the investment vehicle is purchased, and the client will incur an annual management fee payable to the manager of the fund, neither of which is shared with AAM. Fund fees and expenses are described in that fund's prospectus or other offering document. Such fees are in addition to the advisory fees paid to AAM.

Similarly, when AAM retains on behalf of a client, or recommends that a client retain, an outside investment manager for all or a portion of the client's assets, that manager will charge the client a management fee, which fee is in addition to the advisory fees paid to AAM.

When considering an investment in a fund or the retention of an outside investment manager, AAM evaluates the relative annual costs as a part of the decision process. A client could invest in a fund or retain an outside investment manager directly, without the services of AAM. In that case, the client would not receive the services provided by AAM, which are designed, among other things, to assist the client in determining which, if any, funds and/or investment managers are most appropriate to that client's financial condition and objectives. Accordingly, clients should review the fees charged by the funds and/or the managers, and the fees charged by AAM, to fully understand the total amount of fees to be paid by the client and to evaluate the advisory services AAM is providing.

#### ITEM 6 – PERFORMANCE-BASED FEES AND SIDE-BY-SIDE MANAGEMENT

AAM receives a performance allocation, in addition to a retainer fee, for the advisory services it provides to the LLCs described in Item 4 above. The amount of the performance allocation is agreed in advance with each LLC and is paid out of assets of each LLC. The amount of performance allocation is a percentage of the gain in the portfolio and is specified in the LLC agreement with the client.

#### Potential Conflicts of Interest

The receipt of performance-based fees from the LLCs create potential conflicts of interest. Potentially, AAM can receive higher fees from the clients with a performance-based compensation structure than from clients that pay only a retainer fee or an asset-based fee. AAM could have an incentive to direct the best investment ideas to the clients that pay a performance-based fee or to allocate or sequence trades in favor of those clients. AAM recognizes its fiduciary duty to all its clients. In addition, AAM believes its allocation policy, described in Item 11 below, prevents AAM from providing advantages to the clients that pay a performance-based fee.

## ITEM 7 – TYPES OF CLIENTS

AAM offers discretionary and non-discretionary investment advisory services to:

Wealthy family groups, individuals (including their trusts, individual retirement accounts (IRAs) and self-directed 401(k) accounts) Corporations and other institutional clients

## ITEM 8 – METHODS OF ANALYSIS, INVESTMENT STRATEGIES AND RISK OF LOSS

### Methods of Analysis

AAM advises clients on a wide variety of investments as indicated above in Item 4 under "Types of Investments and Sources of Information." Given the differences among these investments, AAM uses a number of different approaches to analyzing each investment. AAM's methods of analysis for individual equity securities include both fundamental and cyclical approaches. For other investments, the methodology used is appropriate to the type of the investment.

When AAM uses fundamental analysis, it attempts to measure the intrinsic value of a security by looking at economic and financial factors (including the overall economy, industry conditions, and the financial condition and management of the company itself) to determine if the company is underpriced (indicating it may be a good time to buy) or overpriced (indicating it may be time to sell). Fundamental analysis does not attempt to anticipate market movements. This presents a potential risk, as the price of a security can move up or down along with the overall market regardless of the economic and financial factors considered in evaluating the stock.

Cyclical analysis is a type of technical analysis. When AAM uses cyclical analysis, it measures the movements of a particular stock against the overall market in an attempt to predict the price movement of the security. Technical analysis does not consider the underlying financial condition of a company. This presents a risk in that a poorly-managed or financially unsound company may underperform regardless of market movement.

Although AAM sometimes advises clients with respect to individual equity and fixed-income securities, it is more typical that AAM makes recommendations or investment decisions as to which investment managers AAM clients should retain and in which funds AAM clients should invest. In such cases, the client's investment managers and the managers of the funds (and not AAM) recommend and effect investment decisions for the client with respect to individual equity and fixed-income securities and other investments. In making recommendations and decisions as to which investment managers and in which funds AAM clients should invest, AAM gathers and analyzes information from many sources, as discussed above in Item 4, and evaluates the managers based on the quality of the firm, products offered, strategies used, investment professionals and historical performance.

### Investment Strategies

The investment strategies used to implement any investment advice given to clients include long-term purchases (securities held at least a year); short-term purchases (securities sold within a

year); short sales (the sale of a security made in anticipation of being able to buy the security in the future at a lower price); margin transactions; and option writing - including covered options, uncovered options or spreading strategies. Applicable strategies are discussed with the clients in the semi-annual account reviews.

#### Risk of Loss – General

The risk of loss varies from one type of investment to the next. The cause is a combination of external factors that influence the value and the liquidity of each security. While there can be no guarantee of future success, AAM works closely with its clients to ensure that the investments that are made are suitable to the investment objectives of the client. Every effort is made to ensure that the investments that are considered are appropriate for the asset class that they are a part of.

When AAM recommends individual securities to its clients, those recommendations are based on the client's financial situation, investment objectives, risk tolerance and the characteristics of available investment opportunities. Each of the investments that AAM recommends has distinct risk characteristics. Additionally, these characteristics can vary over time. AAM periodically reviews each client's investments with the client to ensure that the investments and the client's objectives remain aligned.

Typically, there is a trade-off between risk and return. When the return is higher, the risk is higher. Generally, the safer, more liquid an investment is, the lower the return. The risk of any investment is characterized by the nature of the investment and may be unique to that investment.

#### Risks Associated with Asset Allocation Recommendations

AAM generally makes asset allocation recommendations to its clients. A risk of AAM's asset allocation recommendations is that clients may not participate in sharp increases in a particular asset class, industry or market sector. Another risk is that the ratio of a client's investments in specific asset classes (such as, equity, fixed-income and alternative investments and cash) will change over time due to securities and market movements and, if not corrected, will no longer be consistent with the client's investment policy statement.

#### Risks Associated with Manager and Fund Recommendations

AAM generally recommends that clients invest certain of their assets with independent investment managers or in certain private funds, ETFs or other funds. AAM's manager and fund recommendations include the following risks:

*A Manager or Fund May Underperform and Clients May Experience a Loss – An investment manager's or fund manager's judgment about the attractiveness, value and potential appreciation of a particular security may be incorrect, and there is no guarantee that the securities selected by the manager will perform as anticipated. For these and other reasons, the manager may not be able to replicate its previous success in future periods. Past performance is no guarantee of future results. As a result, there is a risk of loss of the assets managed by any given manager that is out of AAM's control. AUM*

cannot guarantee any level of performance or that clients will not experience a loss in their assets.

*A Manager May Deviate from its Stated Investment Strategy* – Because AAM does not control the underlying investments in a manager's portfolio or fund, there is also a risk that a manager may deviate from the stated investment mandate or strategy of the portfolio or fund, making it a less suitable investment for a client.

*A Manager May Not Have Adequate Internal Controls* – Because AAM does not control a manager's daily business or compliance operations, AAM may be unaware of the lack of internal controls necessary to prevent business, regulatory or reputational deficiencies.

*A Manager's Strategy May Involve Additional Risks* – Managers and funds face risks based on the strategy they implement or the investments they select. For example, foreign securities face additional risks due to political, social and economic developments abroad, as well as due to differences between U.S. and foreign currency and regulatory practices. These risks are greater in emerging markets. Another example would be a sector stock fund that invests in a single industry, such as telecommunications. Its value could decline due to developments in the industry even if its investments were sound.

*Information AAM Relied on May Prove to be Inaccurate* – When AAM develops its recommendations, it relies on information provided by managers and funds, third parties that review managers and funds, and other sources of information. AAM relies on the assumption that such information is accurate and unbiased. While AAM is alert to indications that data may be incorrect, there is a risk that AAM's analysis may be compromised by inaccurate or misleading information.

#### Additional Risks of Private Fund Investments

Managers may invest client assets in private investment funds, or AAM may recommend that clients invest in specific private funds. Investors in private funds face the following additional risks:

*The Investment Will Not Be Liquid* – Because there is no public market for investments in private funds, such investments are not liquid. In addition, investors in private funds generally are contractually and legally restricted from transferring or redeeming such securities. Therefore, holders of such securities may be required to bear the financial risk of their investments for an indefinite period of time.

*Many Assets Held by Private Funds Are Illiquid* – Because many assets held by private funds are illiquid, such funds may realize losses on unsuccessful investments before they realize gains on successful investments. The full return of capital and the realization of gains, if any, on an illiquid asset likely will occur only on the partial or complete disposal of the asset. In addition, income from some investments will not be realized until several years after the fund acquired the investment.

*Valuation Risks* – Initial and additional investments in a private fund, redemptions from such fund, and the calculation of the fund's management fees generally are based on the fund manager's estimated value of the fund's total assets at the time of the investment, redemption or calculation of the management fee. Many assets held in private funds are illiquid and, therefore, have no readily ascertainable fair market value. Therefore, to the extent of a fund's illiquid assets, investors in the fund bear the risk that the fund manager's determinations of fair market value are not correct.

## General Risks Associated with Investments in Individual Securities

Managers may investment client assets in individual securities, or AAM may recommend that clients invest in specific individual securities. Clients face the following risks when investing in individual equity securities and individual fixed-income securities:

### *General Risks of Individual Equity Securities*

The general risks that individual equity investments face are:

*U.S. General Equity Market Risk* – The market price of a security may fluctuate, sometimes rapidly and unpredictably. These fluctuations may cause a security to be worth less than its cost when originally purchased or less than it was worth at an earlier time.

*U.S. Large-Cap Company Risk* – Returns from large-cap stocks may trail returns from the overall stock market. Large-cap stocks tend to go through cycles of doing better, or worse, than the stock market in general.

*Small- and Mid-Cap Company Risks* – Investments in small- and mid-cap companies may be riskier than investments in larger, more established companies. The securities of these companies may trade less frequently and in smaller volumes than securities of larger companies. In addition, small- and mid-cap companies may be more vulnerable to economic, market and industry changes. Because smaller companies may have limited product lines, markets or financial resources, or may depend on a few key employees, they may be more susceptible to particular economic events or competitive factors than larger-capitalization companies.

*Foreign Securities and Emerging Market Risks* – Foreign securities face risks due to political, social and economic developments abroad, as well as due to differences between U.S. and foreign currency and regulatory practices. These risks are greater in emerging markets.

### *General Risks of Fixed-Income Securities*

The general risks that fixed-income securities face are:

*Interest Rate Risk* – Fixed-income securities increase or decrease in value based on changes in interest rates. If rates increase, the value of fixed-income securities generally declines. On the other hand, if rates fall, the value of the fixed-income securities generally increases.

*Credit Risk* – Issuers and counterparties may not make interest and/or principal payments on the securities they issue or their payments may not be made when due. In addition, the credit quality of securities may be lowered if an issuer's financial condition changes. Lower credit quality may lead to greater volatility in the price of a security, and that may affect liquidity and the client's ability to sell the security.

*Call Risk* – Falling interest rates may cause an issuer of fixed-income securities to redeem (call) its high-yielding fixed-income securities before their maturity date.

*Prepayment Risk* – There is a risk that prepayments on a fixed-income security may increase if interest rates decline. Any reinvestment of prepayment proceeds at lower rates could adversely affect return.

### *Additional Risks Associated with Specific Types of Individual Investments*

The following investments are among the types of investments that AAM or a client's investment managers or fund managers may select or recommend:

- Certificates of Deposit
- Commercial paper
- Corporate debt securities
- Exchange-traded funds
- Exchange-listed securities
- Foreign issuers
- Future contracts on tangibles and intangibles
- Municipal securities
- Mutual fund shares
- Options contracts on securities and commodities
- Private placements of securities
- Real estate investments
- Securities traded over-the-counter
- U.S. Government securities
- Variable annuities
- Variable life insurance
- Warrants

Risks associated with each of the above types of securities are discussed below:

#### *Certificates of Deposit*

A Certificate of Deposit or CD is a time deposit, a financial product commonly offered to consumers by banks, thrift institutions, and credit unions. CDs are similar to savings accounts in that they are insured. They are different from savings accounts in that the CD has a specific, fixed term (often three months, six months, or one to five years), and, usually, a fixed interest rate. It is intended that the CD be held until maturity, at which time the money may be withdrawn together with the accrued interest.

#### *Risk of Loss for CDs*

CDs are virtually risk-free. They are "money in the bank." CDs are insured by the Federal Deposit Insurance Corporation (FDIC) for banks or by the National Credit Union Administration (NCUA) for credit unions up to a limit of \$250,000 per depositor, per insured bank for each account ownership category. The level of protection is set by the U.S. Government and may vary from time to time. CDs pay interest rates that are higher than savings accounts but lower than other more risky investments.

#### *Commercial Paper*

In the global money market, commercial paper is an unsecured promissory note with a fixed maturity of 1 to 270 days. Commercial Paper is a money-market security issued (sold) by large banks and corporations to get money to meet short-term debt obligations (for example, payroll), and is only backed by an issuing bank or corporation's promise to pay the face amount on the maturity date specified on the note. Since it is not backed by collateral, only firms with excellent credit ratings from a recognized rating agency will be able to sell their commercial paper at a reasonable price. Commercial paper is usually sold at a discount from face value. Typically, the

longer the maturity on a note, the higher the interest rate the issuing institution must pay. Interest rates fluctuate with market conditions, but are typically lower than banks' rates on CDs.

#### *Risk of Loss for Commercial Paper*

The risk of loss for Commercial Paper is higher than for CDs. The only security is the integrity and good rating of the issuing company. This risk is somewhat mitigated by the fact that the term of investment is short. While defaults on Commercial Paper are rare, they can occur.

#### *Corporate Debt Securities*

A corporate debt security is, in effect, an IOU that represents the issuing corporation's promise to repay the loan face amount, with interest, in a set period of time. It may be issued by corporations in all areas of business. Corporate debt securities generally have higher yields than other fixed-income instruments, such as certificates of deposit or U.S. Treasury securities, but lack the FDIC insurance of the former and the credit quality of the latter. Credit ratings by Moody's Investors Service and Standard & Poor's give an investor a basic guideline to a company's ability to pay its coupon and cover all of its debt obligations. This ability to pay may vary widely. Lower credit ratings from the rating agencies will increase the interest rate the issuing company must pay.

#### *Risk of Loss for Corporate Debt Securities*

As an investor in corporate debt securities, you are a creditor of the issuing company and, in the event of a liquidation of the company, your claim to the company's assets ranks higher than those of common stockholders. You must be paid any interest due before stockholders receive any dividends. The risk of loss is directly related to the stability of the company, its industry and the underlying economy.

#### *Exchange-Traded Funds ("ETFs")*

An ETF is an investment fund traded on stock exchanges, much like stocks. An ETF holds assets such as stocks, commodities, or bonds and trades at approximately the same price as the net asset value of its underlying assets over the course of the trading day. Most ETFs track an index, such as the S&P 500 or MSCI EAFE. ETFs may be attractive as investments because of their low costs, tax efficiency, and stock-like features. ETFs are one of the most popular types of exchange-traded product. Individuals using a retail broker, trade ETF shares through exchanges. An ETF combines the valuation feature of a mutual fund or unit investment trust, which can be bought or sold at the end of each trading day for its net asset value, with the tradability feature of a closed-end fund, which trades throughout the trading day at prices that may be more or less than its net asset value.

#### *Risk of Loss for Exchange-Traded Funds*

Unlike other mutual funds, ETFs may be traded throughout the day by buying or selling shares on the exchange(s) where the shares are listed. On the one hand, this gives the investor the ability to mitigate the adverse affect of the individual securities that are included in the portfolio of the fund. On the other hand, the unit price of ETF shares can fluctuate through the day and drop before the value determined by combining the values of the positions held in the securities in the fund.

### Exchange-Listed Securities

Exchange-listed securities are a stock or a bond that has been accepted for trading by one of the organized and registered securities exchanges in the United States or are listed on foreign exchanges. U.S. exchanges list more than 6,000 issues of securities of some 3,500 corporations. Generally, the advantages of being listed are that the exchanges provide: (1) an orderly marketplace; (2) liquidity; (3) fair price determination; (4) accurate and continuous reporting on sales and quotations; (5) information on listed companies; and (6) strict regulations for the protection of security holders. Each exchange has its own listing requirements, in the U.S. those of the New York Stock Exchange being most stringent. Listed securities include stocks, bonds, convertible bonds, preferred stocks, warrants, rights, and options, although not all forms of securities are accepted on all exchanges.

#### *Risk of Loss for Exchange-Listed Securities*

Because of the listing regulations and close monitoring by the listing exchanges, exchange-listed securities are more secure than similar securities that are not listed on an exchange. The reporting requirements for listed issues aid in ensuring greater stability of a listed company. The structures that the exchange implements better insure orderly trading in listed securities thus helping to better insure price stability. The circuit breakers (trading halts) that can be implemented in a security when the prices rapidly move up or down also help to mitigate risks of loss. Nevertheless, exchange-listed securities are subject to loss.

### Foreign Issuers

A foreign issuer is any issuer which is a foreign government, a national of any foreign country or a corporation or other organization incorporated or organized under the laws of any foreign country.

#### *Risk of Loss for Foreign Issuers*

In addition to the risks associated with various investments issued by U.S.-based companies, investments of foreign issuers are also affected by currency fluctuations. Foreign economies may be less stable and secure than the U.S. economy and greater cost and difficulty in recovering investments in foreign countries significantly increase the risk of these investments. Risks are greater in emerging markets. Investors should be cautious in investing in foreign issues.

### Futures Contracts on Tangibles and Intangibles

A futures contract is a standardized contract between two parties to buy or sell a specified asset (such as, oranges, oil, gold) of standardized quantity and quality at a specified future date at a price agreed today (the futures price). The contracts are traded on a futures exchange. Futures contracts are not "direct" securities like stocks, bonds, rights or warrants. They are still securities, however, though they are a type of derivative contract. The price is determined by the instantaneous equilibrium between the forces of supply and demand among competing buy and sell orders on the exchange at the time of the purchase or sale of the contract. In many cases, the underlying asset to a futures contract may not be traditional "commodities" at all – that is, for financial futures, the underlying asset or item can be currencies, securities or financial instruments and intangible assets or referenced items such as stock indices and interest rates.

### *Risk of Loss for Future Contracts on Tangibles and Intangibles*

A futures contract is a highly leveraged investment. The value of a futures contract is influenced by a combination of factors including the price of the referenced (underlying) security (or index), the time left before the contract expires, the volatility of the price of the underlying security, interest rates and the futures price (strike price). If the price fluctuates adversely beyond the price of the contract at the time of purchase, the purchaser of the contract may be required to deposit additional funds in his or her account. Because these factors can all converge quickly to the disadvantage of the investor, futures contracts are considered a high risk of loss and should be considered carefully.

### **Municipal Securities**

"Municipal securities" is a term that generally refers to municipal bonds or other financial instruments issued by local governments. Potential issuers of municipal bonds include cities, counties, redevelopment agencies, special-purpose districts, school districts, public utility districts, publicly owned airports and seaports, and any other governmental entity (or group of governments) below the state level. Municipal bonds may be general obligations of the issuer or secured by specified revenues. In the United States, interest income received by holders of municipal bonds is often exempt from the federal income tax and from the income tax of the state in which they are issued, although municipal bonds issued for certain purposes may not be tax exempt.

### *Risk of Loss for Municipal Securities*

Municipal securities have a relatively low risk of loss profile. In an investment risk spectrum they are considered more risky than government bonds and less risky than corporate bonds. Their interest rates are generally lower, but for most issues, the interest income is federally tax-exempt. The rates that municipal securities issuers must pay investors are dependent on the assessment of the issuer's financial strength by the rating agencies.

### **Mutual Fund Shares**

A mutual fund is a professionally managed type of collective investment vehicle that pools money from many investors and invests typically in investment securities (stocks, bonds, short-term money market instruments, other mutual funds, other securities, and/or commodities such as precious metals). The mutual fund will have a fund manager that trades (buys and sells) the fund's investments in accordance with the fund's investment objective. In the U.S., a fund registered with the SEC and satisfying certain Internal Revenue Service (the "IRS") rules must distribute nearly all of its net income and net realized gains from the sale of securities (if any) to its investors at least annually. Most funds are overseen by a board of directors or trustees (if the U.S. fund is organized as a trust as they commonly are) which is charged with ensuring the fund is managed appropriately by its investment adviser and other service organizations and vendors, all in the best interests of the fund's investors. Since 1940 in the U.S., with the passage of the Investment Company Act of 1940 (the "Company Act") and the Investment Advisers Act of 1940 (the "Advisers Act"), there have been three basic types of registered investment companies: open-end funds (or mutual funds), unit investment trusts ("UITs"), and closed-end funds. Other types of funds that have gained in popularity are ETFs and hedge funds.

### *Risk of Loss for Mutual Fund Shares*

In the U.S., investment advisers that manage mutual funds and the funds themselves must be registered with the SEC and must continually meet strict guidelines for how they manage their funds, the fees they charge and how they do their accounting. The aim of the fund is to distribute the investment risk across a number of different securities in a way that stimulates the growth of the fund while minimizing the risk. While there is always a risk of loss, mutual fund shares are a positive way to protect and grow assets.

### *Options Contracts on Securities and Commodities*

In finance, an option is a derivative financial instrument that establishes a contract between two parties concerning the buying or selling of an asset at a reference price. The buyer of the option gains the right, but not the obligation, to engage in some specific transaction on the asset while the writer incurs the obligation to fulfill the transaction if so requested by the buyer. The price of an option derives from the difference between the reference price of the option and the value of the underlying asset (commonly a stock, a bond, a currency or a futures contract) plus a premium based on the time remaining until the expiration of the option. Other types of options exist.

Options can in principle be created for any type of asset. An option that conveys the right to buy something is called a call. An option that conveys the right to sell is called a put. The reference price at which the underlying asset may be traded is called the strike price or exercise price. The process of activating an option and thereby trading the underlying asset at the agreed-upon price is referred to as exercising the option. Most options have an expiration date. If the option is not exercised by the expiration date, it becomes void and worthless. In return for granting the option, called writing the option, the originator of the option collects a payment, the premium, from the buyer. The writer of an option must make good on delivering (or receiving) the underlying asset or its cash equivalent, if the option is exercised. An option can usually be sold by its original buyer to another party.

### *Risk of Loss for Options Contracts on Securities and Commodities*

Options are a derivative investment, similar to futures. An important difference is that a buyer of an option is not obligated to replace any lost cash value to the option when the price moves adversely. Futures contract holders must add cash to their account when the prices move adversely beyond the strike price and the value of the futures contract drops below the basic value. At the end of the option period, an option simply expires and its value falls to zero. In a futures contract, the parties to the contract must perform according to the contract. The value of options are determined by the factors of the current price of the underlying security, the interest rate, the time remaining on the option, the volatility of the price of the underlying security (how much it fluctuates) and the original price (premium) paid for the option. The value of options can fluctuate quickly and as such are considered a high risk investment. Because the buyer has the right to act rather than the obligation to act, options are considered less risky than futures contracts.

### *Private Placement of Securities*

Companies seeking to raise investment funds in the early days of their development will approach qualified investors to participate in private placement investments. Private placements are generally exempt from registration under both federal and state securities laws.

### *Risk of Loss for Private Placement of Securities*

Private placement of securities is a risky investment. Most often the companies are in the earliest rounds of development, may not have a proven product or have clearly validated their target market or have proven the applicability of their product to that market. It is highly likely the companies that seek private placement of securities will need additional capital in future investment rounds. These future rounds of new capital often dilute the equity interest of earlier investors. Due diligence is difficult unless the management and principals are personally known to the investors. Even that familiarity is no guarantee that invested moneys will increase in value. Frequently, the companies that receive such investments fail completely and all invested monies are lost.

### **Real Estate Investments**

Real estate investments consist of the purchase of land, buildings and businesses or provision of financing for any of the above.

### *Risk of Loss for Real Estate Investments*

Real estate investments generally are secured by the properties to which they are linked. Whether providing financing or investing in the properties themselves, the property acts as a security for the investment. Since there is collateral for the investment, there should be less risk. The greatest risk is based on the accuracy of the valuation of the underlying property. As has been seen in recent years, property values can be artificially inflated. When the market realigns to more realistic values often there is an over-reaction that drives the liquid value well below the real value of the property.

There is a second layer of risk that is related to liquidity of real estate investments. Sometimes, especially in adverse markets, the ability to sell the property may be impaired and the owner must hold onto the property until its value falls well below the realistic market. This can result in substantial losses, especially to investors that cannot wait for the market to rebound.

### **Securities Traded Over-the-Counter**

An over-the-counter security is traded in some context other than on a formal exchange such as the NYSE, TSX, AMEX, etc. The phrase "over-the-counter" can be used to refer to stocks that trade via a dealer network as opposed to on a centralized exchange. It also refers to debt securities and other financial instruments such as derivatives, which are traded through a dealer network.

In general, the reason a stock is traded over-the-counter is because the company is smaller, making it unable to meet exchange listing requirements. Also known as "unlisted stock", these securities are traded by dealers who negotiate directly with one another over computer networks and by phone. Some over-the-counter markets such as NASDAQ offer a regulatory environment comparable to listed exchanges. On the NASDAQ system, there is a special class of stocks in a subsystem called National Market System (NMS). The securities of companies traded in the NMS system have greater liquidity and stability than other NASDAQ listed over-the-counter stocks and include major companies such as Microsoft, Google, Intel and Apple Computer.

### *Risk of Loss for Securities Traded Over-the-Counter*

Securities traded over-the-counter (unless they are traded on the NMS system) entail more risk than securities listed on U.S. stock exchanges due to more lenient reporting requirements, less regulatory oversight by the SEC, lower trading volumes and higher volatility. Without a centralized exchange, there is no process for measuring trade volumes, but reporting agencies collect real-time trade data from participating buyers and sellers to track price movements in the market. NMS stocks have a risk of loss comparable to that of exchange-listed stocks.

### *U.S. Government Securities*

The U.S. government securities market encompasses all primary and secondary market transactions in securities issued by the U.S. Treasury, certain federal government agencies, and federal government-sponsored enterprises. Trading in government securities is conducted over the counter between brokers, dealers, and investors. In over-the-counter trading, participants trade with one another on a bilateral basis rather than on an organized exchange. Nearly all U.S. government securities are issued and transferred through a book-entry system operated by the Federal Reserve.

In the primary market, U.S. Treasury securities are issued through regularly scheduled auctions. The Federal Reserve Banks serve as conduits for the auctions, with the Federal Reserve Bank of New York coordinating much of the auction activity. Individuals, corporations and financial institutions may participate in the auctions. Participation in U.S. Treasury auctions, however, is typically concentrated among a small number of dealer firms, known as primary dealers.

In the secondary market for government securities, trading activity takes place between primary dealers and non-primary dealers. Customers of these dealers are financial institutions, non-financial institutions and individuals. The majority of transactions between primary dealers and other large market participants are conducted through inter-dealer brokers that provide both anonymity and price information to market participants. Approximately 2,000 securities brokers and dealers are registered to operate in the U.S. government securities market.

### *Risk of Loss for U.S. Government Securities*

U.S. government securities are generally considered some of the least risky investments for investors. In general, governments pay their debts, but it also means government securities do not pay as much interest as some private sector bonds.

### *Variable Annuities*

A variable annuity is a contract between an investor and an insurance company, under which the investor makes a lump-sum payment or series of payments. In return, the insurer agrees to make periodic payments to the investor beginning immediately or at some future date. The investor can choose to invest the purchase payments in a range of investment options, which are typically mutual funds. The value of your account in a variable annuity will vary, depending on the performance of the investment options chosen.

### *Risk of Loss for Variable Annuities*

Variable annuities are complex investment vehicles that are subject to market risk, including the potential loss of principal invested. There is no guarantee that the annuity will keep up with inflation.

### Variable life Insurance

Variable life insurance is a permanent life insurance policy with an investment component. The policy has a cash value account, which is invested in a number of sub-accounts available in the policy. A sub-account acts similar to a mutual fund, except it is only available within a variable life insurance policy. A typical variable life policy will have several sub-accounts to choose from, with some offering upwards of 50 different options. Neither AAM nor Mr. Tallent sells life insurance.

The cash value account has the potential to grow as the underlying investments in the policy's sub-accounts grow - at the same time, as the underlying investments drop, so may the cash value.

The appeal of variable life insurance lies in the investment element available in the policy and the favorable tax treatment of the policy's cash value growth. Annual growth of the cash value account is not taxable as ordinary income. Furthermore, these values can be accessed in later years and, when done properly through loans using the account as collateral, instead of direct withdrawals, they may be received free of any income taxation.

#### *Risk of Loss for Variable Life Insurance*

- Because the insured has control of the investment of the cash value of the policy, the insured is also the one who incurs the risk of loss, not the insurance company. While there is potential for great returns, there is also potential for great loss.
- The cost of variable life insurance is based on age and health and the premiums will continue to increase, making it a more costly form of insurance than whole life or universal life.
- The risk of a policy lapsing is much higher than other types of life insurance policies. This type of life insurance is marketed to those in the wealthiest tax brackets.
- Variable life is one of the most complicated life insurance products on the market. It is easy to misunderstand and can be misrepresented if sold by someone not properly trained.
- Variable life is often marketed as a life insurance offering that can help with college tuition planning, estate planning, and retirement. However, the actuality of being able to use the insurance as marketed is often much more limited than it appears. It is critical that time is taken to understand the policy before investing in this type of life insurance.

### Warrants

A warrant is somewhat similar to an option. Options are discussed above in this Item 8 under "Option Contracts on Securities and Commodities." Like an option, a warrant gives the holder the right but not the obligation to buy an underlying security at a certain price, quantity and future time. It is unlike an option in that a warrant is issued by a company, whereas an option is an instrument of an exchange. The security represented in the warrant (usually share equity) is delivered by the issuing company instead of by an investor holding the shares.

There are two different types of warrants: a call warrant and a put warrant. A call warrant represents a specific number of shares that can be purchased from the issuer at a specific price, on or before a certain date. A put warrant represents a certain amount of equity that can be sold back to the issuer at a specified price, on or before a stated date.

### *Risk of Loss of Warrants*

Like any other type of investment, warrants also have their drawbacks and risks. The leverage and gearing warrants offer can be high. Warrants can also work to the disadvantage of the investor. The value of the warrant can drop to zero if the value of the underlying security falls outside the value point of the warrant. If that were to happen before it is exercised, the warrant would lose any redemption value.

A holder of a warrant does not have any voting, shareholder or dividend rights. The investor can therefore have no say in the functioning of the company, even though he or she is affected by any decisions made.

### ITEM 9 – DISCIPLINARY INFORMATION

Registered investment advisers are required to disclose all material facts regarding any legal or disciplinary events that would be material to a client's evaluation of the adviser or the integrity of its management.

AAM has no legal or disciplinary events to report.<sup>1</sup>

### ITEM 10 – OTHER FINANCIAL INDUSTRY ACTIVITIES AND AFFILIATIONS

AAM has no other financial industry activities or affiliations.

Advisers must disclose if they receive compensation from other advisers for recommending or selecting those advisers for clients. AAM does not receive compensation from other advisers for recommending or selecting them.

### ITEM 11 – CODE OF ETHICS, PARTICIPATION OR INTEREST IN CLIENT TRANSACTIONS AND PERSONAL TRADING

#### Code of Ethics

AAM has adopted a Code of Ethics for the purpose of instructing AAM's, personnel in their ethical obligations and to provide rules for their personal securities transactions and other matters. AAM and its personnel owe a duty of loyalty, fairness and good faith to its clients, and they are obligated to adhere not only to the specific provisions of the Code but to the general principles that guide the Code.

The Code covers a range of topics that include:

- General ethical principles
- Reporting requirements for personal securities trading by AAM's officers, employees and their family members and affiliated persons
- Applicable exceptions to such reporting requirement
- Restrictions on purchasing securities in certain types of transactions
- Requirements for reporting ethical violations

<sup>1</sup> ~~AAM notes that registered advisers are required to report, in Part 1A of Form ADV, all disciplinary events regardless of whether they are material. AAM has no disciplinary events of any kind to report.~~

## Review and enforcement procedures

AAM will provide a copy of the Code of Ethics to any client or prospective client on request.

## Participation or Interest in Client Transactions and Personal Trading

From time to time, AAM recommends to clients that they buy or sell securities or investment products in which AAM or a related person has some financial interest. AAM has been retained as the investment adviser to two LLCs, as discussed in Item 4 above under "Discretionary and Non-discretionary Services." Each of the LLCs is a minority member of Virtu Investments, LLC ("Virtu") and, accordingly, receives a portion of any profits earned by Virtu. Virtu sometimes serves as the Manager of limited liability companies formed to hold particular real estate investments, so members of Virtu, including the LLCs, will participate in Virtu's management fees and performance allocations related to such investments. Due to AAM's and Mr. Tallent's relationship with Virtu, AAM will not use its discretion to invest client assets in any investment managed by Virtu. Qualified clients may make such investments only by completing and signing subscription documents.

AAM performs investment advisory services for various clients and may give advice and take actions with respect to any of its clients, which may differ from advice given, or the timing or nature of actions taken, with respect to other clients. Transactions in a specific security may not be accomplished for all accounts at the same price or the same time. In the event, that AAM or its personnel are participating in the same transaction, when there is a price differential, clients will receive the more favorable price.

Further, both AAM and Mr. Tallent are members of the LLCs that may also invest in the same opportunities as other clients. When such an investment occurs there is potential for a conflict of interest. AAM applies its allocation policy to ensure that clients are treated equitably.

AAM has adopted an allocation policy that applies to all investment opportunities offered to AAM clients in which there is limited availability, such as an investment in a particular piece of real estate or in a private placement (each, an "Investment Opportunity"). The allocation policy applies to AAM's discretionary and non-discretionary clients, and requires AAM to:

- Allocate Investment Opportunities fairly and equitably among appropriate AAM clients
- Provide consistent treatment of clients with similar investment objectives and guidelines to the extent practicable

The allocation policy recognizes that:

- A client may ask AAM to locate a particular Investment Opportunity with specified characteristics and, if such an investment is located, other clients would generally not be able to participate in the Investment Opportunity.

- Some clients may be offered Investment Opportunities by third parties that are not offered to other clients (such as, follow-on investments offered only to existing investors in a particular fund, etc.).

- Some clients may not be qualified to invest in certain Investment Opportunities (such as, because of the client's liquidity requirements, because the Investment Opportunity does not fit within the client's asset allocation targets or is otherwise unsuitable for that

client, etc). In the typical situation, the allocation policy requires AAM to use reasonable efforts to make Investment Opportunities available to as many qualified clients as possible with allocations on a pro rata or other equitable basis.

The allocation policy prohibits AAM, or any employee of AAM, from investing individually in an Investment Opportunity if doing so would cause the desired investment of any qualified AAM client to be reduced, except that the LLCs in which the Principal Member is a minority member may participate in Investment Opportunities in the same manner as other clients.

The above summary of the allocation policy is qualified by the provisions of the policy itself. In the event of a conflict between this summary and the policy, the terms of the policy will control. Asset allocation is generally reviewed with clients semi-annually.

AAM and its employees may invest for their own accounts in the same securities in which AAM's clients are invested, subject to the allocation policy summarized above. Additional limitations on personal securities trades by AAM personnel are included in AAM's Code of Ethics, which is summarized above in this Item 11.

## ITEM 12 – BROKERAGE PRACTICES

### Broker Selection

AAM generally does not place trades for its clients. In most cases, trades for individual securities are made by the client's investment manager or the manager of investment funds in which the client is invested. Private investments often do not involve a broker, because the securities are sold by the issuer.

When AAM has discretionary authority over client assets, such discretion includes the selection of the security, the amount to be purchased or sold, the broker or dealer to be used to effect the transaction, and the commission rate to be paid. When AAM has non-discretionary authority, AAM may have the discretion to select the broker or dealer to effect a transaction approved by the client. In such case, AAM may also have discretion to determine the commission to be paid. Commission rates paid may be higher than the lowest commission rate available. Custodians of client assets generally charge a minimum fee for each transaction in the client's account. Because of this minimum fee, it often is not economically feasible to select any broker other than the client's custodian.

When AAM selects brokers, it selects them based on the following:

- Ability to execute trades in accordance with AAM's instructions and in a timely manner
- Ability to trade on particular exchanges in home country currency (such as, the Toronto Exchange when trading Canadian securities)
- Commission prices
- Quality of the brokerage firm's research
- Ability to settle trades (deliver the securities) in a timely manner

In order to determine the reasonableness of a broker's commissions, AAM periodically "shops" for other broker relationships to compare their rates and services, and it establishes new relationships when deemed appropriate.

AAM does not use client commission dollars to pay for research services – a practice known as a "soft-dollar" arrangement. However, AAM may establish trading relationships with brokers to obtain access to their research. If AAM does so, AAM would negotiate per-share rates that AAM deems are reasonable. Any research obtained from a broker with whom AAM has a trading relationship benefits all clients of the firm. AAM has no agreement with any broker to allocate a fixed amount of brokerage to it.

Although the desire to maintain access to a particular broker's research can lead AAM to favor that broker over other brokers because it lessens AAM's need to pay for research services, quality of service in trading and execution is AAM's number one priority. AAM will not maintain brokerage relationships with brokers who do not fulfill AAM's expectations for execution and settlement capability.

#### Aggregation of Trades

In order to obtain more favorable order execution and lower per-share brokerage costs, AAM's practice is to aggregate contemporaneous buy or sell orders for the same securities, with applicable accounts participating in the aggregated order on a pro rata basis. AAM does not execute cross trades between client accounts. Occasionally, an aggregated order may only be partially filled. Under such circumstances, the securities are allocated, and a client's order may only be partially filled. Under such circumstances, the securities are allocated, to the extent feasible, among applicable clients on a pro rata basis. Exceptions to the pro rata allocation of partially filled orders may occur for several reasons, including, but not limited to, avoidance of odd lots or de minimis number of shares, and sensitivity toward the total transaction cost to be incurred by the client.

When partially-filled orders cannot feasibly be allocated on a pro rata basis, AAM allocates trades on a random basis to the accounts participating in the trade, except that client orders are filled before orders of AAM's officers and employees are filled. There may be instances when partially-filled orders may adversely affect the size of the position or the price paid or received by the client, as compared with the size of the position or price that would have been paid or received had no aggregation occurred.

#### Directed Brokerage

Clients may request AAM use a specific broker to execute trades in their account. Unless there is a concern on AAM's part as to the broker's qualifications or abilities, AAM will accommodate the client's request. However, if a client directs AAM to use a particular broker, AAM probably will be trading with that broker only for that client, and AAM will not be able to aggregate those trades with those of other clients. In such case, the commission charge per share will most likely be higher than that of the larger trade for other clients, and the security may not be bought or sold at the same price as other clients. AAM typically aggregates trades for multiple client accounts

to reduce commission costs, but also to ensure that all clients are fairly treated by obtaining the same stock prices for all clients buying/selling the same security.

See Item 15 below for a discussion of certain benefits that AAM may receive from custodians or brokers that it recommends clients use. AAM does not hold any securities on behalf of clients.

### ITEM 13 – REVIEW OF ACCOUNTS

AAM provides investment supervisory or investment management services to its clients on either a discretionary or non-discretionary basis. Each account will be reviewed on at least a monthly basis and also at other times, either when unusual market activity occurs that may affect the account or when other significant changes occur (such as, when the client makes contributions to, or withdrawals from, the account, or when the client's investment objectives change).

Mr. Tallent reviews all accounts for AAM.

AAM has not established a maximum number of investment accounts that can be reviewed by one person, but believes that a person generally will be responsible for no more than 15 client or family-office relationships.

Clients receive regular account statements (usually monthly) from their custodians. Clients also receive reports from AAM on at least a semi-annual basis. The AAM reports list assets in the account at that time, summarizes transactions since the prior report and discusses the performance of the accounts. AAM's reports also may discuss current economic issues and investment changes recommended to the client. Clients are urged to compare the reports they receive from AAM with the account statements they receive from their custodians. The information in the AAM reports may vary from the client's custodial statements based on accounting procedures, reporting dates or valuation methodologies of certain securities.

### ITEM 14 – CLIENT REFERRALS AND OTHER COMPENSATION

#### Client Referrals

AAM has no referral fee arrangements at present. In the future, however, AAM may pay referral fees to firms or individuals approved by AAM as compensation for referring clients to AAM. Any third-party referral fee agreements will comply with SEC Rule 206(4)-3 issued under the Advisers Act. The terms of the agreements would differ depending on the circumstances, but generally would provide for the payment of cash compensation to the referring party equal to a percentage of the revenues AAM receives from the referred client. Any such referral arrangements would not increase the fees AAM charges the referred client and would be disclosed to such client.

#### Benefits from Custodians/Brokers

AAM participates in Institutional Services Programs offered to independent advisers by certain registered broker-dealers. AAM typically recommends such brokers to clients who need brokerage and custodial services. AAM is independently owned and operated, and is not affiliated with these brokers. As part of the institutional programs, the brokers normally provide AAM with access to their institutional trading and operations services, which are typically not

available to retail investors. These services generally are available to independent investment advisers, at no charge to them so long as the adviser's clients collectively maintain a specified balance of account assets with the broker. These services include brokerage, custody and research services, as well as access to mutual funds and other investments that are otherwise available only to institutional investors or would require a significantly higher minimum initial investment. These brokers generally do not charge separately for custody, and are compensated by account holders either (a) through a quarterly fee based on a percentage of the account value, or (b) through commissions or other transaction-related fees for securities trades that are executed through the broker or that settle into client accounts held with the broker. AAM will generally recommend these institutional programs to non-discretionary clients for the execution of mutual fund, equity and other securities transactions. AAM regularly reviews these programs to ensure that its broker recommendations are consistent with its fiduciary duty.

AAM receives no compensation for suggesting a particular broker or bank to a client. However, custodians recommended by AAM provide certain services to AAM.

Certain brokers make available to AAM products and services that benefit AAM and its client accounts. Some of these other products and services assist AAM in managing and administering client accounts. These include software and other technology that:

- Provide access to client account data (such as trade confirmations and account statements)
- Facilitate trade execution (and allocation of aggregated trade orders for multiple client accounts)
- Provide research, pricing information and other market data
- Assist with back-office support, recordkeeping and client reporting

Many of these services may be used to service all or a substantial number of AAM's accounts, including accounts not maintained with that particular broker. This information benefits AAM in that it enables AAM to more quickly and accurately service its clients.

The various brokers also make available to AAM other services intended to help AAM manage and further develop its business. These services may include consulting, publications and conferences on practice management, information technology, business succession, regulatory compliance, and marketing.

In addition, the brokers may make available, arrange and/or pay for these types of services when provided to AAM by independent third parties. The brokers may discount or waive fees it would otherwise charge for some of these services or pay all or a part of the fees of a third party providing these services to AAM.

As a fiduciary, AAM endeavors to act in its clients' best interests. AAM does not purchase soft-dollar benefits with client transactions. See Item 12 above. AAM's recommendation that clients maintain their assets in accounts with these brokers may be based in part on other benefits to AAM, including the availability of some of the foregoing products and services, so AAM's recommendations may not be based solely on the nature, cost or quality of custody or brokerage services provided by these brokers to AAM clients. This may create a potential conflict with the interests of AAM clients.

AAM receives no fees or compensation from a non-client when AAM recommends to its clients that they make investments or enter into a financial relationship. However, if AAM clients invest in investments managed by Virtu, the LLCs (and AAM and Mr. Tallent, through their membership in the LLCs) will participate in Virtu's management fees and performance allocations related to such investments. See Item 11 above under "Participation or Interest in Client Transactions and Personal Trading."

#### ITEM 15 – CUSTODY

AAM does not provide custodial services to its clients. Client assets must be held by a bank, registered broker-dealer or other "qualified custodian." Clients will receive statements directly from their custodians at least quarterly. AAM clients are urged to carefully review the custodial statements and compare them to the reports AAM sends them. The information in AAM's reports may vary from the client's custodial statements based on accounting procedures, reporting dates or valuation methodologies of certain securities.

AAM may suggest a custodian for a client to use. AAM suggests brokers or banks that meet high standards of record keeping, trade execution and research and that charge competitive commissions.

#### ITEM 16 – INVESTMENT DISCRETION

AAM has either discretionary or non-discretionary authority over client assets, as specified in the agreement with the client. If AAM has discretionary authority, it has full discretionary power to purchase, sell and exchange securities, exercise all rights conferred on the holder of such assets, and reinvest all proceeds. If AAM has non-discretionary authority, it makes recommendations, which the client must approve before the recommended action is effected.

In recommending investments or making investment decisions, AAM observes any investment limitations or restrictions that clients provide to AAM.

#### ITEM 17 – VOTING CLIENT SECURITIES

AAM generally does not vote proxies with respect to securities held by clients, except:

- In its role as discretionary investment adviser to the LLCs described above in Item 4
- When AAM and a client agree to have AAM vote proxies with respect to all or a portion of the client's account

When voting proxies, AAM determines the vote that is in accordance with the best interests of the client before voting the applicable proxy. If a conflict of interest arises in voting a proxy, AAM will obtain the consent of the client before voting the applicable proxy. If a client wishes to direct how AAM votes a proxy on a particular issue, it must instruct AAM. On request, AAM will send a copy of its proxy voting policy to any client for whom AAM votes proxies, and AAM will disclose to the client how AAM voted proxies for the client.

## ITEM 18 – FINANCIAL INFORMATION

Registered investment advisers are required in this item to provide you with certain financial information or disclosures about AAM's financial condition. AAM has no financial commitment that impairs its ability to meet contractual and fiduciary commitments to clients, and has not been the subject of a bankruptcy proceeding.

**JAMES M. TALLENT**  
**SUPPLEMENTAL EDUCATIONAL AND BACKGROUND**  
**INFORMATION**

JAMES M. TALLENT

Atrato Asset Management LLC  
SEC File No. 801-70631  
CRD No. 151620

1202 Calle Agua  
Santa Fe, NM 87501

Phone: 505-989-9979

April 22, 2013

This Brochure Supplement provides information about James M. Tallent that supplements Atrato Asset Management's Brochure. You should have received a copy of that Brochure. Please contact Mr. Tallent if you did not receive Atrato Asset Management's Brochure or if you have any questions about the contents of this supplement.

Additional information about Mr. Tallent is available on the SEC's website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).

## Educational Background and Business Experience

James M. Tallent

Manager and Chief Compliance Officer

Born: 1962

### Education:

Washington State University, BA, Business with emphasis in Finance, 1984

Golden Gate University, tax classes, 1984-1985

### Business Background (last five years):

Atrato Asset Management LLC, Manager, Chief Compliance Officer and Principal Owner,  
August 2009 to present

Waveland Capital Partners LLC, registered broker representative and investment adviser  
representative, June 2009 to March 2011

Manager of the LLCs described above, 1997 to 2009

A.C. WilDen Holdings, LLC, Managing Member, 10/1997 – 03/2010

Rueppelli Holdings, LLC, Managing Member, 10/1997 – 03/2010

A.C. WilDen Realty, LLC, Managing Member, 10/1997 – 03/2010

Peppers Food and Beverage Company, LLC, President, 04/2003 - 12/2007

## Disciplinary Information

Registered investment advisers are required to disclose all material facts regarding any legal or disciplinary events that would be material to your evaluation of each supervised person providing investment advice. No information is applicable to this item.

## Other Business Activities

No information is applicable to this item.

## Additional Compensation

No information is applicable to this item.

## Supervision

Not applicable – Mr. Tallent is AAM's Manager. It has no employees.

## Requirements for State-Registered Advisers

Not Applicable.

