



March 31, 2014

This brochure provides information about the qualifications and business practices of 40|86 Advisors, Inc.

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 40|86 Advisors, Inc. also is available on the SEC's website at; www.adviserinfo.sec.gov

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FORM ADV

Part 2A - Item 2 - Material Changes

40 | 86 Advisors, Inc. did not have any material changes since its last annual filing.

FORM ADV
Part 2A – Table of Contents

Table of Contents

| Item Number | Item | Page |
|--------------------|---|-------------|
| 1. | Cover Page | |
| 2. | Material Changes | |
| 3. | Table of Contents | 3 |
| 4. | Advisory Business | 4 |
| 5. | Fees and Compensation | 5 |
| 6. | Performance Based Fees and Side-by-Side Management | 6 |
| 7. | Type of Clients | 7 |
| 8. | Methods of Analysis, Investment Strategies and Risk of Loss | 7 |
| 9. | Disciplinary Information | 10 |
| 10. | Other Financial Industry Activities and Affiliations | 10 |
| 11. | Code of Ethics, Participation or Interest in Client Transactions and Personal Trading | 11 |
| 12. | Brokerage Practices | 12 |
| 13. | Review of Accounts | 12 |
| 14. | Client Referrals and Other Compensation | 13 |
| 15. | Custody | 13 |
| 16. | Investment Discretion | 13 |
| 17. | Voting Client Securities | 13 |
| 18. | Financial Information | 14 |

Item # 4 Advisory Business

We are 40|86 Advisors, Inc., a wholly-owned subsidiary of CNO Financial Group, Inc. We were founded in 1981 and provide fixed income portfolio management services primarily to affiliated insurance companies, as well as entities that are structured as collateralized bond obligations or collateralized loan obligations. We specialize in providing fully integrated fixed income portfolio management services. Our clients' assets are primarily invested in multiple classes of fixed income securities and investments, including residential mortgage-backed securities, commercial mortgage-backed securities, consumer asset-backed securities, bank loans, investment grade corporate bonds, credit tenant loans, high yield corporate bonds, commercial mortgage loans and U.S. Treasury securities and other government securities.

Generally, we have full discretion to make purchase and sales for a client's account without requiring us to obtain consent or approval prior to each transaction, to select the type and amount of securities that we buy or sell for the account, the dealer we use to effect such transactions and the mark-ups/mark-downs we pay for client transactions. However, each client may specifically impose certain restrictions or investment parameters for its account. For example, a client may specify minimum quality standards and/or restrict or prohibit transactions in securities of a specific issuer.

As of December 31, 2013 we managed over \$27 billion in client assets on a discretionary basis.

Item # 5 Fees and Compensation

Our basic investment advisory fee is calculated on a percentage of the current market value of assets under management. Our standard investment management fee schedule follows:

| Assets under Management | Annual Rate % Fee |
|--------------------------------|------------------------------|
| First \$25,000,000 | .35 |
| Next \$25,000,000 | .25 |
| Next \$50,000,000 | .20 |
| Next \$50,000,000 | .15 |
| Above \$150,000,000 | Negotiable |

Fees may vary based on services rendered. We may negotiate reduced fees for certain classes of clients, such as charitable institutions. We do not currently have any such reduced fee arrangements in place.

Unless otherwise negotiated, fees are billed and payable quarterly, in advance, based on the valuation of the account at the end of the prior quarter. If an account is terminated during a quarter, the fee payable for the terminated account will be computed on a pro rata basis for the period during which the account was active, and client will receive a refund for any overpayment. In addition, in connection with our services as portfolio manager for several issuers of a collateralized loan obligation, we may receive an incentive fee after noteholders have received a specified internal rate of return and to the extent that funds are available for such purpose in accordance with the specified priority of payments. Such incentive fee maybe equal to a percentage of the interest and principal proceeds available after certain higher-priority payments have been made. Although we currently do not have other performance fee arrangements in place, we may enter into a performance fee arrangements in the future.

Our fees are exclusive of dealer mark-ups/mark-downs, custodial fees, transaction fees and other related costs and expenses. These charges and fees are typically imposed by the dealer or custodian through which the client account transactions are executed. We do not share in any portion of these dealer mark-ups/mark-downs, fees and costs. Please refer to “Item 12 - Brokerage Practices” for a description of the factors we consider in selecting or recommending dealers for client transactions and determining the reasonableness of their compensation.

Item # 6 Performance-based Fees and Side by Side Management

We may receive a performance or incentive fee for our services. Specifically, in connection with our services as portfolio manager for several issuers of collateralized loan obligations, we may receive an incentive fee after noteholders have received a specified internal rate of return and to the extent that funds are available for such purpose in accordance with the specified priority of payments. The incentive fee may be equal to a percentage of the interest and principal proceeds available after certain higher-priority payments have been made. Although we currently do not have other performance fee arrangements in place, we may enter into performance fee arrangements in the future.

Performance-based fees may create an incentive for our firm to make investments that are riskier or more speculative than would be the case absent a performance fee arrangement. In order to address this potential conflict of interest, we ensure that investments are suitable for each client and in compliance with applicable investment guidelines and objectives.

We advise clients who we charge performance-based fees at the same time that we advise similar clients who we do not charge performance-based fees. This is known as “side-by-side management,” which may create a possible conflicts of interest. These clients may have similar investment guidelines and objectives. Side-by-side management might provide an incentive for our firm to favor accounts for which we receive a performance-based fee. For example, we may have an incentive to allocate limited investment opportunities to clients who are charged performance-based fees over clients who are charged asset-based fees only. To address this possible conflict of interest, we have instituted policies and procedures that require our firm to allocate investment opportunities (if they are suitable) on a fair and equitable basis among our clients over time.

Item # 7 Type of Client

We serve as an investment adviser principally to insurance company clients who are affiliated with us through CNO Financial Group, Inc. In addition, we serve as investment advisor to five entities that are structured as collateralized bond obligations or collateralized loan obligations. Each client's portfolio is managed on a discretionary basis according to the client's investment objectives and guidelines.

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

We provide fixed income portfolio management services in accordance with each client's investment strategies and objectives. We specialize in providing fully integrated fixed income portfolio management services. Our clients' assets are primarily invested in multiple classes of fixed income securities and investments, including residential mortgage-backed securities, commercial mortgage-backed securities, consumer asset-backed securities, bank loans, investment grade corporate bonds, credit tenant loans, high yield corporate bonds, commercial mortgage loans and U.S. Treasury securities and other government securities.

We utilize a team approach to portfolio management. The portfolio management team consists of portfolio managers, portfolio analysts, research analysts and traders. The portfolio manager has decision-making authority over investment decisions and retains ultimate responsibility for portfolio construction, security selection and trading decisions. The portfolio manager is supported by a team of portfolio analysts who assist with the daily management and analytics performed on each client's account. The portfolio manager works with the research analysts and traders to identify under/overvalued securities, credit issues, and opportunities in the market. Together, the team combines the specialized areas of expertise of its members.

We build each portfolio from the bottom-up by selecting undervalued securities through proprietary, independent research. This style is based on an investment philosophy that security selection produces favorable risk-adjusted returns. We place an emphasis on relative value, looking for opportunities where the market price of a security does not appropriately reflect its intrinsic value. The objective is to invest in those securities that we believe are undervalued and then sell them when they become fully valued in the market.

Securities research is the cornerstone of our investment process. We have eight full-time dedicated analysts providing independent, fundamental research. Our credit research analysts are industry specialists covering specific industries and specific issues. An

individual analyst serves each sector of the corporate bond market (retail, utilities, airlines, etc.). Likewise, a dedicated analyst covers taxable municipal bonds. While we receive external research, we do not depend primarily upon those sources to generate investment ideas. We conduct independent, grass roots research as part of the diligence process by directly accessing company management.

In addition, for structured securities, quantitative analysts use a number of analytic tools, including state-of-the-art cash flow models, to perform detailed, accurate and standardized securities analysis. The research analysts bring their ideas and research to daily meetings and directly to the portfolio manager.

Risk of Loss

Investing in securities involves risk of loss that clients should be prepared to bear. We do not represent or guarantee that our services or methods of analysis can or will predict future results, successfully identify market tops or bottoms, or insulate clients from losses due to market corrections or declines. We do not offer any guarantees or promises that our clients' financial goals and objectives will be met. Past performance is in no way an indication of future performance. We set forth below material risks of investing with us.

Other Risks

- *Debt and Other Income Securities.* Income securities are subject to interest rate, market and credit risk. Interest rate risk relates to changes in a security's value as a result of changes in interest rates generally. Even though such instruments are investments that may promise a stable stream of income, the prices of such securities are inversely affected by changes in interest rates and, therefore, are subject to the risk of market price fluctuations. In general, the values of fixed income securities increase when prevailing interest rates fall and decrease when interest rates rise. Market risk relates to the changes in the risk or perceived risk of an issuer, country or region. Credit risk relates to the ability of the issuer to make payments of principal and interest. A client could lose money if the issuer of a fixed income security is unable to pay interest or repay principal when due. Credit risk applies to most fixed income securities. The values of income securities may also be affected by changes in the credit rating or financial condition of the issuing entities.
- *Residential Mortgage-Backed Securities.* These securities may be issued by U.S. government agencies and government-sponsored entities, such as Ginnie Mae, Fannie Mae and Freddie Mac, and by private entities. The payment of interest and principal on mortgage-backed obligations issued

by U.S. government agencies may be guaranteed by the full faith and credit of the U.S. government, or may be guaranteed by the issuer. However, these guarantees do not apply to the market prices and yields of these securities, which vary with changes in interest rates.

Mortgage-backed securities issued by private entities are structured similarly to those issued by U.S. government agencies. However, these securities and the underlying mortgages are not guaranteed by any government agencies. These securities generally are structured with one or more types of credit enhancements such as insurance or letters of credit issued by private companies. Prepayments can alter the effective maturity of these instruments. In addition, delinquencies, losses or defaults by borrowers can adversely affect the prices and volatility of these securities. Such delinquencies and losses can be exacerbated by declining or flattening housing and property values. This, along with other outside pressures, such as bankruptcies and financial difficulties experienced by mortgage loan originators, decreased investor demand for mortgage loans and mortgage-related securities and increased investor demand for yield, can adversely affect the value and liquidity of mortgage-backed securities.

- *Commercial Mortgage-Backed Securities.* These securities may have a lower prepayment uncertainty than other mortgage-related securities because commercial mortgage loans generally prohibit or impose penalties on prepayments of principal. In addition, commercial mortgage-related securities often are structured with some form of credit enhancement to protect against potential losses on the underlying mortgage loans. Many of the risks of investing in commercial mortgage-backed securities reflect the risks of investing in the real estate securing the underlying mortgage loans, including the effects of local and other economic conditions on real estate markets, the ability of tenants to make rental payments and the ability of a property to attract and retain tenants. Commercial mortgage-backed securities may be less liquid or exhibit greater price volatility than other types of mortgage or asset-backed securities.
- *Asset-Backed Securities.* These securities are backed by other assets such as credit card, automobile or consumer loan receivables, retail installment loans or participations in pools of leases. Credit support for these securities may be based on the underlying assets and/or provided through credit enhancements by a third party. The values of these securities are sensitive to changes in the credit quality of the underlying collateral, the credit strength of the credit enhancement, changes in interest rates and at times the financial condition of the issuer. Some asset-backed securities also may receive prepayments that can change their effective maturities.

- *Loan Participations.* Loan participations (sometimes called bank loans) are interests in amounts owed by a corporate, governmental or other borrower to a lender or consortium of lenders. Purchasers of participation interests do not have any direct contractual relationship with the borrower and may be subject to delays, expenses and risks that are greater than those that would be involved if the purchaser could enforce its rights directly against the borrower. In addition, the purchaser may be regarded as a creditor of the intermediate participant (rather than of the borrower), so that the purchaser may also be subject to the risk that the intermediate participant could become insolvent. The financial condition of the borrower will determine an investor's ability to receive payments of principal and interest and other amounts in connection with a loan.

Restricted or Illiquid Securities. Restricted securities may only be sold pursuant to an exemption from registration under the Securities Act, or in a registered public offering. Where registration is required, the holder of a registered security may be obligated to pay all or part of the registration expense and a considerable period may elapse between the time it decides to seek registration and the time it may be permitted to sell a security under an effective registration statement. Difficulty in selling such securities may result in a loss to the client or cause it to incur additional administrative costs.

Item # 9 Disciplinary Information

Neither our firm nor any of our management persons have been involved in any legal or disciplinary events required to be disclosed in this Item #9.

Item # 10 Other Financial Industry Activities and Affiliations

We do not have any other financial industry activity or affiliation required to be disclosed under this Item #10.

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

We are a direct wholly-owned subsidiary of CNO Financial Group Inc., a financial services holding company that owns several life insurance companies. We provide investment and servicing functions to CNO Financial Group Inc. and its affiliates, as well as to non-affiliated clients pursuant to investment advisory contracts. Because we may be simultaneously acting for both affiliated and non-affiliated clients, we may be recommending to non-affiliated clients that they buy or sell securities in which an affiliated client has invested or will invest. It is our policy that, to the extent practicable, all clients with similar investment objectives and guidelines are treated fairly and equitably in the allocation of investment opportunities and in the allocation of securities trades. The formula for such allocations will differ depending on the facts and circumstances involved in each allocation.

Our employees may own various marketable securities and hold investments in a variety of enterprises. As a result, they may at times own securities that are also owned by, or recommended to, our clients. We have policies in place to avoid conflicts of interest when its personnel engage in personal securities transactions. We maintain a Code of Ethics and have adopted certain procedures that are designed to detect and prevent such conflicts of interest. In addition to several trading restrictions, our employees are required to report, on a quarterly basis, their personal securities transactions and these reports are monitored by our legal and compliance department. In addition, each access person must submit an Annual Certification of Compliance Form. Our Code of Ethics is available upon request. Should you desire to receive this document, please contact the firm's Chief Compliance Officer, Jeffrey M. Stautz at 317-817-6422 or by e-mail at jeff.stautz@4086.com.

We serve as portfolio manager for issuers of collateralized loan obligations ("CLO") which affiliated and non-affiliated clients may purchase. In connection with any deferred fees with respect to the CLO's, we notify clients, pursuant to Rule 205-3, the amount of the deferred fee based in part on the investment return of the notes. Such notices describe our interest as portfolio manager of a CLO.

We may also serve as collateral manager for issuers of collateralized debt obligations ("CDO") and may also, from time to time, recommend investments in such CDOs to our clients. Where our client would invests in a CDO, we would receive a fee from the CDO for acting as collateral manager and an advisory fee from the client based on the client's assets under management including the amount of client assets invested in the CDO. Clients investing in such a CDO would be given a disclosure document setting forth our interest in managing the CDO assets.

Item # 12 Brokerage Practices

For affiliated clients only, we may receive research services directly or indirectly from brokers or dealers in return for the execution by such firms of trades in securities on a principal basis.

We seek to obtain the best execution of securities transactions under the circumstances of the particular transaction. We monitor and evaluate the performance and execution capabilities of the brokerage firms who transact orders.

Aggregation of Orders: Trade orders on behalf of one client may be aggregated with orders on behalf of other clients. We will not aggregate orders unless aggregation is consistent with our duty to seek best execution and the terms of our investment advisory contract. Each client that participates in an aggregated order will participate at the average price for all of our transactions in that security on a given business day, with transaction costs shared pro-rata based upon each client's participation in the transaction. We do not allocate trades or aggregate orders in such a way that affiliated or performance-fee based portfolios will receive preferential treatment over discretionary, non-affiliated client portfolios.

We have the responsibility for executing trades for each client's portfolio and for negotiating the terms thereof. It is our policy to seek to obtain the best quality of execution available, giving attention to net price (including mark-ups/mark-downs where applicable), execution capability (including the adequacy of a firm's capital position), and the other services related to the execution. The relative priority given to these factors will depend on all of the circumstances regarding a specific trade.

Item # 13 Review of Accounts

Review and Accounts: We have a Compliance Committee that meets weekly to review and discuss any compliance issues that may have arisen in the previous week of trading. Our Compliance Committee includes, the President, CCO, a Compliance Officer, the Chief Information's Officer and the SVP, Portfolio Manager. Our compliance program is designed to ensure that our investment management activities operate in accordance with our policies and the provisions of federal and state laws and regulations, which are applicable to an investment adviser registered under the Investment Advisers Act of 1940.

In addition, the portfolio managers monitor performance and portfolio risk for each client on an ongoing basis. Factors that are monitored by the portfolio manager include, but are not limited to:

- significant market corrections,
- substantial changes in the value of a client's portfolio,
- year-end tax planning, and/or
- security-specific events.

We have designated a Chief Compliance Officer (CCO) that has primary responsibility for administration of the compliance program.

Item # 14 Client Referrals and Other Compensation

We do not compensate any persons for client referrals nor do we receive any additional compensation beyond that described in this Brochure.

Item # 15 Custody

We do not maintain custody or possession of client assets.

Item # 16 Investment Discretion

Generally, we are granted full discretion to make purchases and sales for a client's account in accordance with each client's investment objectives and guidelines. Clients may specify certain limitations or restrictions, such as certain minimum quality standards or other investment constraints applicable to securities purchases.

Item # 17 Voting Client Securities

We have adopted policies and procedures to ensure that we vote client proxies in the clients' best interest. We only vote proxies related to securities held by portfolio management clients who provided us with specific, written authority to do so. The client provides us with written authority via the investment advisory agreement. We base the final voting decisions on a pre-established set of policy and guidelines. This process helps ensure that proxies voted are in the best economic interest of our clients and insulates as much as possible, voting decisions from conflicts of interest.

Clients may request a copy of our proxy voting policies and procedure or a report of how we voted proxies for their respective accounts. We will provide a report showing how proxies were voted for all accounts held at the clients' broker/custodian. We vote proxies on an aggregated basis.

Item # 18 Financial Information

We are required in this item to provide you with any information about our financial condition that is reasonably likely to impair our ability to meet our contractual commitments to clients. There is no such information, as we have ample capital and resources to meet all of our obligations.