

# Shay Asset Management, Inc.

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This brochure provides information about the qualifications and business practices of Shay Assets Management, Inc. If you have any questions about the contents of this brochure, please contact us at (305) 507-1536. The information in this brochure has not been approved or verified by the United States Securities and Exchange Commission ("SEC") or by any state securities authority. Registration with the SEC does not imply any particular level of skill or training. Additional information about Shay Assets Management, Inc. is available on the SEC's website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).

## **Material Changes**

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Our brochure has been revised since our last annual update of our Form ADV, Part 2A (“brochure”), dated March 31, 2012. Changes that may be considered material are as follows:

- We have updated information with respect to litigation matters under “Disciplinary Information.”

Our brochure may be requested by contacting us at (800) 327-6190.

We may update this brochure at any time.

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## Advisory Business

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Shay Assets Management, Inc. (“Shay” or the “Firm”) is a wholly-owned subsidiary of Shay Investment Services, Inc., a closely-held corporation majority-owned by Rodger D. Shay and Rodger D. Shay, Jr. The Firm was formed in 1981. As of December 31, 2012, the Firm managed \$411 million in assets on a discretionary basis and \$52 million in assets on a non-discretionary basis.

*Mutual Fund Services.* Shay provided discretionary advisory services to the Asset Management Fund family of mutual funds (“AMF” or the “Fund”). The Firm provides investment advice with respect to large cap value equity securities and fixed-income securities, which include mortgage-related securities, U.S. government and agency securities, collateralized mortgage obligations, repurchase agreements, and other money market instruments. Many of Shay’s fixed-income products and services are designed to meet the needs of financial institutions. Certain portfolios of the Fund specifically limit their investments to those that are eligible for purchase by national banks and credit unions.

*Consulting Services.* Shay also provides credit analysis, consulting and investment accounting services to institutional clients on a non-discretionary basis.

*Valuation Services.* Shay provides a securities valuation service for third parties focused on securitized assets such as residential mortgage-backed securities.

*Other Business.* Shay provides a cash management service through direct repurchase agreement arrangements (the “Master Repo Program”). Services provided under the Master Repo Program include monitoring compliance with the margin and other requirements of the Master Repurchase Agreement, effecting all transactions under the Master Repurchase Agreement, and exercising all of client’s rights and obligations under the Master Repo Program documentation. Shay also provides lender agent services under a mortgage warehouse finance program (“MWF Program”) Services under the MWF Program include allocation of lending opportunities, selection of MWF platforms, and monitoring of margin and similar requirements under the MWF Program documents.

## Fees and Compensation

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### *Mutual Fund Clients*

Shay serves as investment adviser to AMF, a registered open-end investment company with six portfolios. The fees charged to AMF by Shay are based upon a percentage of each portfolio’s average daily net assets, computed daily and payable monthly. The fee schedule with respect to fees paid by AMF to Shay is as follows:

	<u>Assets</u>	<u>Annual Rate</u>
<b>AMF Large Cap Equity Fund</b>	Up to \$250 million	0.650%
	Over \$250 million	0.550%

	<u>Assets</u>	<u>Annual Rate</u>
<b>AMF U.S. Government Mortgage Fund</b>	Up to \$500 million	0.250%
	\$500 million to \$1 billion	0.175%
	\$1 billion to \$1.5 billion	0.125%
	Over \$1.5 billion	0.100%
<b>AMF Intermediate Mortgage Fund</b>	Up to \$500 million	0.350%
	\$500 million to \$1 billion	0.275%
	\$1 billion to \$1.5 billion	0.200%
	Over \$1.5 billion	0.100%
<b>AMF Short U.S. Government Mortgage Fund</b>	Up to \$500 million	0.250%
	\$500 million to \$1 billion	0.175%
	\$1 billion to \$1.5 billion	0.125%
	Over \$1.5 billion	0.100%
<b>AMF Ultra Short Mortgage Fund</b>	Up to \$3 billion	0.450%
	\$3 billion to \$5 billion	0.350%
	Over \$5 billion	0.250%
<b>AMF Ultra Short Fund</b>	N/A	0.450%

### *Consulting Clients*

Shay provides credit analysis, consulting and investment accounting services to institutional clients on a contractual basis. Consulting services generally are provided with respect to mortgage-related securities. Fees and terms are negotiated on a case-by-case basis for such services. In addition to Shay's consulting fees, clients will pay custody fees, brokerage and other transaction costs.

### *Valuation Services*

Fee rates for valuation services are negotiated individually.

### *Cash Management Clients*

Shay's basic fee schedule for clients in relation to its cash management program is generally up to 0.50% but may waive up to .25% of assets invested through the Master Repo Program, calculated and paid monthly in arrears. Shay's basic fee schedule for clients in relation to the MWF Program is up to an annual rate of 0.30%, payable upon receipt of funds under the MWF Program documents. Shay may negotiate or waive fees. Either Shay or the client may terminate the contract upon written notice. In addition to Shay's fee, clients may pay custody fees and other transaction fees set forth in the Master Repo Program documentation.

## **Performance-Based Fees and Side-by-Side Management**

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Shay does not receive performance-based fees for any of its investment advisory services.

## **Types of Clients**

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Shay generally provides investment advice to banks, thrift institutions, investment companies, trusts, estates and charitable organizations. With respect to non-investment company accounts, Shay generally imposes a \$10 million dollar account minimum for the provision of investment supervisory services. The account minimum is a general guideline and may vary depending on style considerations at the sole discretion of Shay.

## **Methods of Analysis, Investment Strategies and Risk of Loss**

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Shay's securities analysis methods include fundamental analysis. Shay currently offers large cap equity and fixed-income investment strategies, each of which, along with the material risks involved, is described below. Investing in securities involves risk of loss that clients should be prepared to bear.

The material risks set forth below are qualified in their entirety by the more detailed risk disclosure in the applicable product's offering materials.

### *Large Cap Blend Investment Strategy*

The Firm emphasizes domestic large cap equity securities that it perceives to be undervalued. The material risks involved in the large cap equity strategy include but not limited to:

**Market Risk** – Market prices of securities held by a client may fall rapidly or unpredictably due to a variety of factors, including changing economic, political or market conditions.

**Large-Capitalization Stock Risk** – The stocks of large-capitalization companies may trail the returns of investments in stocks of smaller companies.

**Stock Risk** – Stocks may perform differently from the market as a whole and may be undervalued by the market for a long period of time.

### *Fixed-Income Investment Strategy*

The Firm offers a range of fixed Income strategies generally seeking either income or total return through a combination of capital appreciation and income. The Firm's strategies focus on longer term investment products. The Firm emphasizes U.S. government and mortgage-related securities. The material risks involved in the fixed-income investment strategies include but not limited to:

**Market Risk** – Market prices of securities held by a client may fall rapidly or unpredictably due to a variety of factors, including changing economic, political or market conditions.

**Interest Rate Risk** – Generally, the market value of fixed-income securities moves inversely with interest rate movements. In other words, if interest rates rise, the prices of fixed-income securities tend to decline. If interest rates decline, the prices of fixed-income securities tend to increase. This inverse relationship may cause fixed income funds to decline when interest rates rise or fall.

**Credit Risk** – Fixed-income securities carry the risk of default, which means that the issuer is unable to make additional income and principal payments.

**Inflation Risk** – Periods of high inflation can erode the value of the income stream received from a fixed-income security.

**Call and Prepayment Risk** – Some fixed-income securities include a provision that allows the issuer to call, or repay, the outstanding debt early. If interest rates drop low enough, the issuer of the fixed-income security can save money by repaying its callable debt and issuing new debt at lower interest rates. In this situation, your interest payments cease and principal may be paid early. The re-investment of proceeds into newly issued fixed-income securities may include a lower coupon rate, more consistent with prevailing interest rates. This will lower monthly interest payments.

#### *Risks of Cash Management Service*

The risks of this product are described in detail in the Master Repo Program client package and MWF Program documentation and includes, without limitation counterparty risk, liquidity risk, bankruptcy risk, default risk, and market and valuation risk with respect to the underlying collateral.

Currently, the Master Repo Program is offered exclusively with a single counterparty, BCM High Income Fund, LP (the “BCM Fund”). Banes Capital Management, LLC (“Banes LLC”) serves as investment adviser to the BCM Fund. Joel L. Banes is a control person of Banes LLC and its managing member. Shay Financial Services, Inc. (“Shay Financial”), an affiliate of Shay and a registered broker-dealer, has significant business relationships with Banes LLC and Joel L. Banes, and therefore, could be adversely affected if the BCM Fund or Banes LLC suffers losses or damages in connection with the Master Repo Program. In the event of a dispute under the Master Repo Program, Shay may be subject to significant conflicts of interest because of its competing relationships with the Banes entities.

Joel L. Banes is licensed as a registered representative of Shay Financial, and serves as a registered principal of Shay Financial. In that capacity, Mr. Banes affects brokerage trades through Shay Financial on behalf of Banes LLC, the BCM Fund and other brokerage clients for which Shay Financial is compensated through customary brokerage commissions. As a registered representative of Shay Financial, Mr. Banes receives commission-based compensation from Shay Financial. Additional employees of Banes LLC also are licensed as registered representatives of Shay Financial and are compensated for their services through commission-based compensation. Shay Financial serves as an assembler of SBA loans. In this capacity, Shay Financial performs such functions as are necessary to package multiple SBA loans into a security (“SBA Securities”). Shay Financial is not compensated for its services as assembler.

Banes LLC may enter into repurchase agreements, including on behalf of the BCM Fund, that are backed by SBA Securities assembled by Shay Financial.

To the extent that client demand for participation in the Master Repo Program or MWF Program exceeds the capacity of available counterparties, Shay will seek to allocate such capacity in a manner that it deems fair and reasonable taking into account multiple factors including the timing of client indications of interest, the size of each client's level of interest, ability of client to provide financing on a regular basis, liquidity needs of the client, minimum size requirements, and available capacity of counterparties. Although Shay will seek to allocate capacity on a pro rata basis (relative to indications of interest), there is no assurance that it will be able to do so and clients may participate to a greater degree than Master Repos (relative to indications of interest). Shay its affiliates or AMF Funds, may participate as principal in the MWF Program.

The foregoing relationships may create conflicts of interest between the interests of Clients participating in the repurchase agreement program and Shay.

## **Disciplinary Information**

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### **Pending Legal Matters Relating to Investment Adviser and Distributor**

On December 28, 2010, West Texas National Bank ("WTNB") commenced a FINRA arbitration proceeding against Shay Financial Services, Inc. ("Shay Financial"). WTNB alleges violation of state securities laws, negligent misrepresentation, breach of fiduciary duty, and other theories, and seeks damages of approximately \$27.6 million and other costs relating to alleged losses from certain investments in mortgage-backed securities. In the alternative, WTNB seeks rescission for the purchase price of approximately \$101 million paid for the original securities. In addition, WTNB seeks punitive damages, interest, costs and attorney's fees.

### **Trust and Fund Information**

On November 11, 2011, Town North Bank, N.A. ("TNB") commenced a civil action in the U.S. District Court, Northern District of Texas, against Shay Financial. TNB alleges violations of federal securities law, fraud, and breach of fiduciary duty, and seeks approximately \$64 million in damages from Shay Financial relating to alleged losses from investments in certain mortgage-backed securities and collateralized debt obligations. TNB also seeks punitive damages, interest, costs and attorney's fees. There is no assurance that additional legal actions arising out of these circumstances will not be filed against Shay Assets Management, Inc., Asset Management Fund, Shay Financial Services Inc., Rodger D. Shay and/or Rodger D. Shay, Jr. The Adviser, Distributor and Fund are unable to predict the potential range of monetary exposure, if any, but believe that claims asserted in each of the above-referenced actions are without merit and the Distributor intends to vigorously defend itself against all actions. However, an unfavorable result could have a material adverse effect on the Adviser, the Distributor and the Fund.



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

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Shay is under common control with a registered broker-dealer, Shay Financial. Shay Financial is the distributor of AMF Funds and shares of the Fund are sold primarily to clients of Shay Financial, which consist of institutional clients including banking and financial institutions. Shay Financial also refers its clients to Shay for the cash management program.

The parent of Shay also owns and controls a national savings bank, Anthem Bank (formerly First Financial Bank & Trust Co.). Advisory clients, other than the AMF Funds, may also be clients of the bank with respect to separate products offered by the Anthem Bank. Anthem Bank does not serve as custodian with respect to Shay's advisory business. As discussed above, the Shay entities have material business arrangements with the Banes entities.

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

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Shay has adopted a Code of Ethics in accordance with Rule 204A-1 under the Investment Advisors Act of 1940, as amended, and Rule 17j-1 under the Investment Company Act of 1940, as amended. The Code of Ethics sets forth standards of business conduct applicable to Shay's supervised persons and requires the reporting and review of personal securities transactions of access persons.

Shay's Code of Ethics includes various reporting and pre-approval requirements and certain trading restrictions in order to prevent actual or potential conflicts of interest with transactions recommended to clients. The Code of Ethics applies not only to transactions by the individual, but also to transactions for accounts in which such person has a beneficial interest. Compliance with the Code of Ethics is a condition of employment. In addition, Shay has adopted certain policies and procedures concerning the misuse of material non-public information that are designed to prevent insider trading by employees of the Firm. A copy of the Code will be made available to any client or prospective client upon request by calling Shay's Chief Compliance Officer at (305) 507-1536.

Shay Financial or its representatives may refer its broker-dealer clients to Shay for advisory services. Likewise, Shay may recommend the services of Shay Financial to clients for whom it provides services. Consulting and administrative services do not include investment supervisory services and Shay Assets does not have investment discretion or trading authority over such accounts. Clients who maintain a brokerage relationship with Shay Financial may request and place trades with Shay Financial. In such instances, Shay Financial will be compensated at commission rates then in effect for the account.

It is possible that the same type of a security recommended to a client may be bought or sold by an affiliated broker-dealer in the course of effecting transactions for its clients. Shay does not effect transactions for its own account.

## Brokerage Practices

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### *Best Execution and Trade Allocation*

In placing orders, Shay generally seeks to obtain the best combination of price and execution and uses its best judgment in allocating transactions. In selecting broker-dealers to effect securities transactions for clients, Shay selects broker-dealers that it believes are financially responsible, will effectively and efficiently execute, report, clear and settle the order, provide valuable research, timely and accurately communicate with Shay's trading desk and operations team and will charge commission rates which, when combined with these services, will produce the most favorable total cost or proceeds for each transaction under the circumstances.

Competitive spreads and commissions are significant considerations in placing transactions with broker-dealers. However, this does not mean that execution decisions must be based solely on whether the lowest possible price or commission costs may be obtained. Best execution means the best overall qualitative execution, not necessarily the lowest possible commission cost.

Fixed-income securities are usually purchased directly from the issuer, from an underwriter or from a dealer that makes a market in such securities. Purchases from dealers serving as market makers may include the spread between the bid and asked prices. Usually, there is no brokerage commissions paid in such transactions. The primary considerations are availability and prompt execution of orders in an effective manner at the best price.

With respect to equity securities, the primary aim in the allocation of portfolio transactions to various brokers is the attainment of the best combination of price and efficient execution consistent with obtaining research services and statistical information at reasonable cost that enhances the performance of Shay's own decision-making capabilities. Portfolio transactions in unlisted securities are executed in the over-the-counter market through principal market makers. Allocation among brokers is made on the basis of best price and execution consistent with obtaining research and statistical information at reasonable cost.

When securities are purchased for the fund(s), the portfolio management team allocates the security based on the investment requirements and objectives of each fund that is eligible to purchase the security. These requirements and objectives include relative cash available to invest, the risk posture of each fund relative to its stated and/or targeted levels, and the portfolio management team's expectation concerning future liquidity needs of each fund as well as other variables.

### *Brokerage Selection, Research and Other Soft Dollar Benefits*

Shay may direct brokerage commissions on client account portfolio transactions to certain broker-dealers consistent with Section 28(e) of the Securities Exchange Act of 1934, in recognition of the value of efficient execution and research and statistical information provided by the selected broker-dealer and/or other third-party providers.

As a general matter, the research and statistical information provided may consist of written reports and presentations analyzing specific companies, industry sectors, the financial markets

and the economy. Such information may also include reports accessed by computers or terminals, statistical collations and appraisals. The research provided can be either proprietary (created and provided by the broker-dealer, including tangible research products as well as, for example, access to company management or broker/dealer generated research reports) or third-party (created by the third-party, but provided by the broker-dealers). This may cause clients to pay a broker-dealer a commission rate higher than that which the broker-dealer would have charged for execution only. This is known as paying up for soft dollar benefits. These products and services may include advice, either directly or through publications or writings, as to the value of securities, the advisability of investing in, purchasing, or selling securities, and the availability of securities or purchasers or sellers of securities, and analyses and reports concerning issuers, industries, securities, economic factors and trends, portfolio strategy, and the performance of accounts.

In the allocation of brokerage business, Shay may have an incentive to give preference to those brokers that provide research products and services, either directly or indirectly. However, Shay will only do so to the extent the Firm believes that the selection of a particular broker is not inconsistent with its duty to seek best execution. To the extent that Shay is able to obtain products and services through the use of clients' commission dollars, it reduces the need to produce the same research internally or through outside providers for hard dollars and thus provides an economic benefit to Shay. On an ongoing basis, Shay monitors the research services received to ensure that the services received are reasonable in relation to the brokerage allocated.

If Shay receives a product or service that both aids it in carrying out its investment decision making responsibilities (i.e., a "research use") and provides non-research related uses, Shay will make a good faith determination as to the allocation of the cost of these "mixed-use items" between the research and non-research uses and will only use soft dollars to pay for the portion of the cost related to its research use.

The research products/services provided by brokers through its soft dollar arrangements benefit Shay's investment process for client accounts and are used in formulating investment advice for clients of the Firm including accounts other than those that paid commissions to the brokers on a particular transaction. As a result, not all research generated by a client's trade will benefit that particular client's account. In some instances, the other accounts benefited will include accounts that clients have directed a portion of their brokerage commissions to go to particular brokers other than those providing the research products/services. Shay does not attempt to allocate the relative costs or benefits of research among client accounts because it believes that, in the aggregate, the research it receives benefits clients and assists Shay in fulfilling its overall duty to its clients.

During the last fiscal year, Shay did not engage in any transactions tied to third-party soft dollar arrangements.

### *Brokerage for Client Referrals*

In selecting broker-dealers, Shay does not consider whether it receives client referrals from a broker-dealer or third party firms.

### *Aggregation of Client Orders*

Certain investments recommended for an investment company client by Shay may also be appropriate for other clients. Investment decisions are made by Shay on the basis of the investment objectives and needs of the particular client. If transactions are effected for two or more client's investment company or other clients on the same day, such transactions will be allocated between or among the clients in a manner that Shay deems fair and equitable and, to the extent appropriate, will be aggregated.

## **Review of Accounts**

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Discretionary accounts are reviewed on a periodic basis by the assigned portfolio manager with primary responsibility for that account. The form and frequency of reporting is determined on a case-by-case basis in consultation with the client.

## **Client Referrals and Other Compensation**

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Shay utilizes solicitors who are employees of, or contractors to, the Firm as well as employees of Shay Financial. These solicitors may be compensated through salaries, bonuses, commissions or a flat fee.

Shay may pay cash referral fees to unaffiliated third parties. In such instances, the referral agreement and the related activities of Shay will be in compliance with Rule 206(4)-3 under the Investment Advisers Act of 1940, which specifies certain standards that must be met by an investment adviser and any person who solicits any client for, or refers any client to, an investment adviser prior to the payment of a cash fee, directly or indirectly, for client solicitation or referral.

## **Custody**

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Shay does not maintain custody of client funds or securities.

## **Investment Discretion**

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*Mutual Fund Services.* Shay may accept discretionary authority to manage securities accounts on behalf of investment company clients pursuant to an investment advisory agreement. Shay may purchase for the portfolios of its investment company clients only securities permitted by the investment policies applicable to a particular portfolio.

*Consulting Services.* Shay does not have investment discretion when it provides consulting services.

*Cash Management Services.* Shay does not have investment discretion when it provides cash management services.

*Valuation Services.* Shay's valuation services do not involve the management of securities accounts; rather, such services involve the discretionary evaluation of mortgage- and asset-backed securities for third party clients.

## **Voting Client Securities**

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Shay has the authority to vote proxies for client securities. The following is a summary of Shay's proxy voting policy and procedures. Clients wishing to receive a copy of the entire policy and procedures or information on how Shay voted securities in their account should contact Shay's Chief Compliance Officer at (305) 507-1536.

It is the Firm's policy to vote proxies for client securities in the manner most economically beneficial to the client. In general, Shay will vote against anti-takeover provisions and other actions by management that has the effect of diluting shareholders' interests (both economic and voting). Shay will vote in favor of dilutive provisions if it deems that such provisions are nonetheless in the best interest the stockholders, such as when the provisions improve the shareholders' negotiating positions with potential acquirers.

With respect to situations that pose a potential conflict of interest, Shay's Executive Committee will determine the vote.

## **Financial Information**

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Shay does not believe there is any financial condition that is reasonably likely to impair its ability to meet contractual commitments to clients, except for the legal proceedings described above.