

## **Advance Capital Management Institutional ADV Brochure**



A D V A N C E  
C A P I T A L  
*m a n a g e m e n t*

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*This brochure provides information about the qualifications and business practices of Advance Capital Management, Inc. If you have any questions about the contents of this brochure, please contact us at 1-800-345-4783. 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 Advance Capital Management, Inc. also is available on the SEC's website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov). The searchable IARD/CRD number for Advance Capital Management, Inc. is 110767.*

***The date of this Brochure is October 31, 2014***

## Item 2: Summary of Material Changes to ADV

There are no material changes as of the last update.

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#### **Item 4: Advisory Business**

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Advance Capital Management, Inc. (“Management”, “we”, or “us”) provides investment advice to many types of clients including individuals, investment companies, pension, profit sharing and other forms of retirement plans, trusts, estates, charitable organizations and corporations. We were founded in 1986 and since that time have offered investment advisory and consulting services.

We are owned by Advance Capital Group, Inc. (“ACG”). The principal owners (those who own 25% or more) of ACG are John C. Shoemaker, Raymond A. Rathka and Robert J. Cappelli.

For institutional clients, we offer investment management services through three specific strategies. These strategies are focused on the large cap equity, mid cap equity, and fixed income asset classes. Institutional clients will provide an Investment Policy Statement (IPS) to detail any restrictions on the investment of their assets. Within the parameters of this IPS, we will actively purchase, hold, and sell securities as we deem appropriate for each specific mandate.

We also manage assets in a sub-advisory capacity for pooled investment vehicles. Investments for pooled vehicles (i.e., collective investment trusts, private funds, and mutual funds) are managed in accordance with the vehicle’s investment objective, strategies, and restrictions as set forth in the vehicle’s governing documents and offering documents and are not tailored to the individualized needs of any one underlying investor.

As advisor to the Advance Capital I, Inc. mutual funds (“the Advance Capital Funds”), we are obligated to follow the investment objectives of the Advance Capital Funds as mandated in the advisory agreement. The investment objectives are defined in the Advance Capital Funds prospectus and the statement of additional information. Please review these important documents for additional details.

As of 12/31/2013, we managed a total of \$1,615,476,684 in assets on a discretionary basis.

#### **Item 5: Fees and Compensation**

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Clients pay for our investment advisory services by paying us a fee based on the amount of assets under management. For institutional clients, fees are charged by strategy as indicated below. We may also, in our discretion, negotiate fees based upon certain additional factors.

##### **Equity Accounts**

###### **Large Capitalization**

0.60% on the first \$10,000,000  
0.55% on the next \$15,000,000  
0.50% on the next \$25,000,000  
0.40% on assets exceeding \$50,000,000  
Minimum account size: \$1,000,000

###### **Mid Capitalization**

0.75% on the first \$10,000,000  
0.70% on the next \$15,000,000  
0.60% on the next \$25,000,000  
0.50% on assets exceeding \$50,000,000  
Minimum account size: \$1,000,000

## **Fixed Income Accounts**

### **Core Plus**

0.35% on the first \$10,000,000

0.30% on the next \$15,000,000

0.25% on the next \$25,000,000

0.20% on assets exceeding \$50,000,000

Minimum account size: \$5,000,000

Fees are separately billed at the end of each quarter based on the fair market value of the assets held in the client's account(s) on the last day of the quarter. Institutional clients are given the option to receive and pay invoices directly or receive the invoice and authorize the custodian to pay. We do not have actual custody of client assets and therefore cannot deduct fees directly from client accounts. We may send a client's fee invoice to the client's custodian for payment based upon written instructions from the client. No fees are collected in advance of service. In addition to our fee, each client is responsible for paying any transaction costs associated with purchasing and selling securities as part of the fee based service.

Please see the section titled "Item 12: Brokerage Practices" for more information on the firm's brokerage practices.

## **Item 6: Performance-Based Fees and Side-By-Side Management**

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We do not charge performance-based fees.

## **Item 7: Types of Clients**

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We provide investment advice to individuals, investment companies, pension, profit sharing and other forms of retirement plans, trusts, estates, charitable organizations, and corporations.

Please see the section titled "Item 5: Fees and Compensation" for more information on the minimum account size requirements.

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

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Advance Capital's investment strategies are based on the systematic application of methods of dependable alpha generation in a disciplined, forward looking, risk managed structure.

### **Large Cap Equity**

The Large Cap Equity strategy executed by Advance Capital Management invests in a broad range of equity securities of large sized companies with market capitalizations of at least \$7.0 billion at the time of purchase. The security selection is comprised of the universe of large capitalization stocks.

Through a quantitative fundamental equity screening process, our equity strategy invests in approximately 40 to 70 securities. Securities are selected using a proprietary, multi-factor, valuation-based model. The portfolio leverages the long-term alpha generation properties of size, value, quality, and momentum factors, while also exhibiting compelling appreciation potential. Stock selection is driven by a continuous study of fundamental criteria based on both historical and forward-looking measures. The portfolios are rebalanced quarterly based on the equity screens.

The material risks associated with the Large Cap Equity strategy are:

- Equity investments are subject to the risk that the securities markets may decrease in value, including the possibility that the markets may decrease sharply and unpredictably.
- The portfolio manager may not execute the principal investment strategy effectively.

The management of these risks is a principal duty of the investment management team for the Large Cap Equity strategy.

## **Mid Cap Equity**

The Mid Cap Equity strategy executed by Advance Capital Management invests in a broad range of equity securities of medium sized companies. The security selection is comprised of the universe of medium capitalization stocks.

Through a quantitative fundamental equity screening process, our equity strategy invests in approximately 80 to 120 securities. Securities are selected using a proprietary, multi-factor, valuation-based model. The portfolio leverages the long-term alpha generation properties of size, value, quality, and momentum factors, while also exhibiting compelling appreciation potential. Stock selection is driven by a continuous study of fundamental criteria based on both historical and forward-looking measures.

The material risks associated with the Mid Cap Equity strategy are:

- Equity investments are subject to the risk that the securities markets may decrease in value, including the possibility that the markets may decrease sharply and unpredictably.
- The portfolio manager may not execute the principal investment strategy effectively.
- Mid cap stocks may fall out of favor relative to stocks of larger or smaller companies.
- Securities of mid cap companies tend to be more volatile than larger companies.

The management of these risks is a principal duty of the investment management team for the Mid Cap Equity strategy.

## **Core Plus Fixed Income**

The Core Plus Bond strategy executed by Advance Capital Management invests in a broad range of index-eligible fixed income securities, with at least 65% of total assets invested in corporate and U.S. Government fixed income securities. Corporate securities consist of investment grade and below investment grade bonds. Government agency, mortgage-backed, and high dividend, large cap stocks are included based on market opportunities and risk.

Investment ideas begin with the list of index eligible securities to assure sufficient liquidity. The due diligence process then focuses on financial screens and fundamental security research. This process reviews for financial strength, security rating, marketability, and other relevant factors. Duration and yield curve positioning are established based on the interest rate outlook established by the investment management team.

The portfolio managers and fixed income analysts continuously review available market opportunities in sectors including: investment grade, high yield, mortgage-backed, and government related securities. The analytics process begins with a top-down, relative valuation analysis of these sectors in conjunction with their views on interest rates, economic activity, monetary policies, and other relevant data. Based on this research, a determination is made on the best relative valuation sectors. The team then screens the market for the best available securities to implement this researched view of the fixed income market.

During this on-going process, the portfolio managers have regular daily meetings to discuss strategy, analyze relevant data, and review available investable securities. The managers primarily focus on the issuer's financial stability characteristics and asset support of the particular issue's structure. A primary reliance is placed on the issuer's ability to pay at maturity. A secondary reliance is placed on the analytical review of the strength of the collateral should a default occur. This decision process varies depending on the strategy and issue researched, however, a few days is a typical timeline.

The ongoing reviews of securities held include financial, relative spread, and overall market conditions. The general framework for duration and yield curve management is dependent upon the economic data and guidance outlined by the Federal Reserve. While outside analysis is reviewed, the portfolio managers assign their own outlook for interest rates based on relevant data and make changes to the portfolio based upon this analysis.

The material risks associated with the Core Plus Fixed Income strategy are:

- Fixed income securities are subject to credit risk which would cause the loss of money if an issuer is unable or unwilling to make timely principal and/or interest payments or to otherwise honor its payment obligations. High yield securities are more sensitive to credit risk than investment grade securities.
- Fixed income securities are subject to interest rate risk. This could cause the value of a bond to decline due to an increase in the absolute level of interest rates. Longer dated maturity bonds are more sensitive to interest rate risk.
- Any equity investments held in the Fixed Income strategy are subject to the risk that the securities markets may decrease in value, including the possibility that the markets may decrease sharply and unpredictably.
- The portfolio manager may not execute the principal investment strategy effectively.

The management of these risks is a principal duty of the investment management team for the Core Plus Fixed Income strategy.

Individual accounts are actively managed under an investment advisory agreement that grants us discretionary authority. Custom portfolios may be constructed as customer circumstances and strategies require differing approaches to investing. Investments are held in portfolios until it is determined that the strategy of the portfolio may be adversely affected by continuing to hold the security or other opportunities are identified which may better accomplish the goals of the portfolio.

Clients should be aware that investing in securities involves risk of loss that they should be prepared to bear. Investments are not FDIC insured against loss, and principal values at the time of redemption will fluctuate and may be worth more or less. Diversification cannot eliminate all risks associated with investing.

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#### **Item 9: Disciplinary Information**

Neither our firm nor any of our management personnel have been involved in any legal or disciplinary proceedings during the past 10 years that is material to a client's (or a prospective client's) evaluation of our advisory business or the integrity of our management. Specifically, there have been no criminal or civil actions involving our firm or our management personnel, there have been no administrative proceedings before the United States Securities and Exchange Commission or any other foreign, federal or state regulatory agency, and there have been no proceedings by a self-regulatory organization involving our firm or any of our management personnel.

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

We have an affiliated broker dealer, Advance Capital Services, Inc. ("Services"). Our owner, Advance Capital Group, Inc. ("Group") also owns Services. All of our management personnel and our investment adviser representatives are also registered representatives of Services. As noted above, we are the investment adviser to the Advance Capital Funds. Some of our officers and directors are also officers and/or directors of the Advance Capital Funds. However, a majority of the directors of the Advance Capital Funds are independent. Shares of the Advance Capital Funds are distributed by Services.

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

We have adopted a Code of Ethics that complies with SEC Rule 204A-1. Our Code of Ethics governs the personal securities trading activities of our "supervised persons", which include any owner, manager, employee or other person who provides investment advice on our behalf and who is subject to supervision and control by us. The Code recognizes that all supervised personnel owe a fiduciary duty to our clients, including a duty to conduct their personal securities transactions in a manner that does not interfere with the transactions of a client or otherwise take unfair advantage of the relationship with a client. The Code contains specific principles of conduct, prohibits certain types of securities trading activities by a supervised person, requires pre-clearance for certain securities transactions by a supervised person, requires "Access Persons" to file an initial holdings report with our Chief Compliance Officer, and also either to file with our Chief Compliance Officer quarterly transactions reports showing all personal trades made during each quarter, or to provide our Chief Compliance Officer with copies of brokerage trade confirmations and monthly brokerage statements.

A copy of our Code of Ethics will be provided without charge to any client who requests one by calling 800-345-4783 or by writing to the Chief Compliance Officer at One Towne Square, Suite 444, Southfield, MI 48076.

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**Item 12: Brokerage Practices**

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As an investment advisory firm, we have a fiduciary duty to seek best execution for client transactions. As a fiduciary, we are required to seek to obtain the best price and execution of client securities transactions where the adviser is in a position to direct brokerage transactions. Where we have discretion over the choice of broker-dealer, as a matter of policy and practice, we seek to obtain best execution for client transactions (i.e., seeking to obtain not necessarily the lowest commission, but the best overall execution relative to the existing circumstances).

Advance Capital utilizes the Bloomberg Tradebook for order execution. Bloomberg has an Accommodation Policy program whereby a percentage of the commissions on trades will be accumulated as credits to apply against the cost of the Bloomberg Professional service subscription and other eligible services offered by Bloomberg L.P. The commission rate paid is \$0.01 per share with 25 percent available in this program. Based on the commission trends, Advance Capital and the clients have both benefitted through a reduction in direct fees paid for the Bloomberg terminal(s). Advance Capital has determined that any available funds in this program will be first used to offset this terminal that has been typically paid by the Advance Capital Funds.

Research and Other Soft Dollar Benefits: We do not have any soft dollar arrangements.

Brokerage for Client Referrals: We do not receive client referrals from brokers.

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**Item 13: Review of Accounts**

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Portfolio holdings are continuously evaluated based on the designated strategy. Portfolios are reviewed relative to strategy targets. Security level adjustments are made based on cash flows to align portfolios with target security allocations.

Equity strategies are rebalanced on a quarterly basis relative to the recently run quantitative fundamental selection methodology. This rebalancing process brings the best ideas from our analytical selection methodology to the portfolios and harvests securities that are not deemed to have sufficient potential to remain in the portfolio.

Reviews are intended to monitor appropriate positions, weightings, and performance according to the applicable IPS (or other documentation identifying investment goals and objectives), fund objective, or mutual fund investment guidelines. The review process is undertaken by the Senior Portfolio Management team, and the Portfolio Managers.

Investment and performance reports will be provided to clients quarterly.

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**Item 14: Client Referrals and Other Compensation**

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Advance Capital does not receive economic benefits from third parties in exchange for providing investment advice or other advisory services to our clients.

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**Item 15: Custody**

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We do not maintain custody of any client funds or securities. Clients will receive account statements from the broker-dealer, bank, or other qualified custodian. Clients should review these statements carefully as all activity in the account will be reflected on these statements.

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**Item 16: Investment Discretion**

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Clients have signed investment advisory agreements giving us discretionary investment authority over the account. Discretion refers to the authority of the investment advisor to make purchase and sale decisions (including which securities to select and how much to buy or sell) in the client's account.

We will not make any trades within client accounts until we have entered into an investment advisory agreement with a client.

**Item 17: Voting Client Securities**

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Advisory clients may elect to delegate their proxy voting authority to us. Alternatively, clients may, at their election, choose to receive and vote proxies related to their own accounts, in which case we may consult with clients as requested. When we have discretion to vote client’s proxies, we will vote those proxies in the best interests of the client and in accordance with our established proxy voting policies and procedures. With respect to ERISA accounts, we will always vote proxies unless the plan fiduciaries specifically reserve the right to vote their own proxies. Clients that have granted us proxy voting authority may request, in writing, information on how proxies for their account were voted.

**Item 18: Financial Information**

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In this brochure, we are not required to include our balance sheet for the most recent fiscal year because we do not require or solicit prepayment of more than \$1,200 in fees per client, six months or more in advance.

We are not aware of any financial condition that would impair our ability to meet our contractual commitments to our clients. Neither our firm nor any of our management personnel have been the subject of a bankruptcy petition at any time during the past 10 years.

**Privacy Policy**

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As part of our business, certain client nonpublic personal financial information is obtained. This information is provided to employees on a need to know basis in order to service accounts. This information includes data received on applications and other forms, as well as transactional information, including the following:

Name and Address	Account Balance
Investment Activity	Social Security Number
Assets	Other Accounts

Any personal or financial information provided to us is kept strictly confidential.

We restrict access to personal and financial information to those employees who need to know such information in order to provide products and services.

Client account information will be disclosed to certain third parties as necessary to provide investment advisory services that the client has requested or authorized, or to maintain and service the client’s account. Client account information may also be disclosed as required by regulatory authorities or law enforcement officials who have jurisdiction over us.

Physical, electronic, and procedural safeguards are in place to guard confidential information.

**Business Continuity Plan**

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The Advance Capital Companies (“Advance Capital”) have a Business Continuity Plan (“Plan”) in place which addresses how the firms will respond should there be a significant business disruption. Procedures are in place to safeguard employees’ lives and firm property, make financial and operational assessments, quickly recover and resume operations, protect books and records, and allow customers to transact business.



Advance Capital does not provide specific details of its Plan in order to maintain security. However, this Plan specifically addresses the ability of the firm to recover from various situations ranging from simple outages to major incidents and includes the following:

- Alternative physical locations
- Customer access to funds
- Data back-up and recovery
- Operational and financial assessments
- Identification of mission-critical systems
- Alternative communications with customers, employees, and regulatory agencies
- Identification of critical business constituents and banks

The Plan is reviewed as necessary, but no less frequently than annually, to ensure that it addresses any technological, business, and regulatory changes. The Plan is subject to change as appropriate, and material changes will be posted on the firm's website [www.acadviser.com](http://www.acadviser.com).

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### **Customer Identification and Verification**

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In addition to the information we must collect under the USA Patriot Act, we have established, documented and maintain a written Customer Identification Program ("CIP").

Prior to opening an account, Advance Capital will collect certain minimum customer identification information; verify the identity of each individual who opens an account; record the customer identification information, verification methods and results; provide notice to customers that we will seek proper identification and compare that information with government-provided lists of individuals suspected of terrorist activity.

Appropriate documents for verifying the identity of customers include, but are not limited to, the following:

For an individual, an unexpired government-issued identification evidencing nationality, residence, and bearing a photograph or similar safeguard, such as a driver's license or passport; and

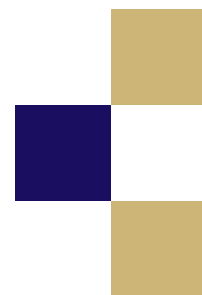
For a non-person (i.e., Trust, Business, Foundation, etc.), documents showing the existence of the entity, such as certified articles of incorporation, a government-issued business license, a partnership agreement, or a trust instrument.

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### **Who to Contact**

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To obtain a prospectus on the Advance Capital I, Inc. family of funds, please call 800-345-4783 or write to us at One Towne Square, Suite 444, Southfield, MI 48076. Requests for information may also be made via electronic mail on our website under the "Contact Us" heading at [www.acfunds.com](http://www.acfunds.com).



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