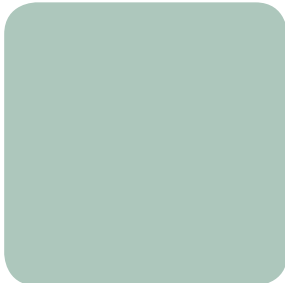




Albert Heeg Investment Management

REGISTERED INVESTMENT ADVISER



THE BROCHURE





Albert Heeg Investment Management

REGISTERED INVESTMENT ADVISER

This brochure provides information about the qualifications and business practices of Albert Heeg Investment Management. If you have any questions about the contents of this brochure, please contact us at 510-864-2900 ext. 11 or by email at albert@heeg.com.

Additional information about Albert Heeg Investment Management is available on the SEC's website at www.adviserinfo.sec.gov.

Albert Heeg Investment Management is a registered investment advisor but this statement alone does not imply a certain level of skill or training. 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.

3/31/2014



TABLE OF CONTENTS

| | |
|---|---|
| Material Changes | 1 |
| Annual Update | 1 |
| Material Changes since the Last Update | 1 |
| Full Brochure Availability | 1 |
| Advisory Business | 1 |
| Firm Description | 1 |
| About US | 1 |
| West Coast – East Coast | 1 |
| Firm Profile | 1 |
| Our Services | 2 |
| Our Five Star Process | 6 |
| Principal Owners | 2 |
| Types of Advisory Services | 3 |
| Tailored Relationships | 3 |
| Client Assets | 3 |
| Fees and Compensation | 3 |
| Description | 3 |
| Other Fees | 4 |
| Performance-Based Fees & Side-by-Side Management | 4 |
| Sharing of Capital Gains or Capital Appreciation | 4 |
| Types of Clients | 4 |
| Description | 4 |
| Account Minimums | 4 |
| Methods of Analysis, Investment Strategies and Risk of Loss | 4 |
| Methods of Analysis | 4 |
| Investment Strategies | 4 |
| Investment Portfolio Development | 5 |
| Portfolio Manager Database | 6 |
| Risk of Loss | 6 |
| Disciplinary Information | 6 |
| Other Financial Industry Activities and Affiliations | 6 |
| Code of Ethics, Participation or Interest in Client Transactions & Personal Trading | 7 |
| Code of Ethics | 7 |
| Brokerage Practices | 7 |
| Selecting Brokerage Firms | 7 |
| Research and Soft Dollars | 7 |
| Review of Accounts | 7 |
| Periodic Reviews | 7 |
| Regular Reports | 7 |
| Client Referrals and Other Compensation | 7 |
| Custody | 7 |
| Account Statements | 7 |
| Investment Discretion | 8 |
| Discretionary Authority for Trading | 8 |
| Voting Client Securities | 8 |
| Proxy Voting | 8 |
| Financial Information | 8 |



MATERIAL CHANGES

Annual Update

Albert Heeg Investment Management is providing this information as part of our annual updating amendment which contains material changes from our last annual update. This section discusses only material changes since the last annual update which occurred on March 31, 2013.

Material Changes since the Last Update

The Securities and Exchange Commission adopted amendments to Part 2 of Form ADV effective October 2010. The newly revised Part 2 consists of Part 2A (the "Brochure") and Part 2B (the "Brochure Supplement"). Each update of the Brochure must now include a summary of all material changes since the last annual update.

This Brochure, dated March 31, 2014, is materially different in structure and contains certain new information that our previous brochure did not require. There have not been any material changes to Albert Heeg Investment Management's operations since the last brochure dated March 31, 2013.

Full Brochure Availability

The Firm Brochure is available at www.heeg.com or by contacting Albert Heeg Investment Management.

ADVISORY BUSINESS

Firm Description

Albert Heeg Investment Management ("AHIM") is a SEC registered investment advisory firm founded in 1993. We specialize in providing portfolio advice for Captive and Commercial Property and Casualty Insurance Companies. Our mission is to deliver consistent results, while balancing investment risk and investment return. We are dedicated to helping our clients meet their investment goals.

As an Investment Advisor, Albert Heeg Investment Management tailors investment strategies with the goal of producing returns which are both realistic and achievable.

We believe it is imperative to maintain our independence and objectivity in order to be successful in the

institutional marketplace. We do not serve as an Investment Manager who trades securities, or as a broker/dealer. We do not sell products to managers.

About Us

Mission Statement

We will provide consistent results that meet our client's goals by being focused on mastering the delicate balance between investment risk and investment return.

We will educate our clients to understand the principles of successful investing, thereby improving their awareness of our services.

We will account for all the known dimensions of risk and we will design investment strategies with the goal of producing expected returns that are both realistic and achievable. It's a privilege to serve our clients.

When a client says: "OK, I understand what you are suggesting and I'm comfortable with it", we know we have done our job.

Investment Strategies Tailored to Match Your Expectations!

West Coast – East Coast

Albert Heeg Investment Management maintains offices in Alameda, California and Needham, Massachusetts.

Firm Profile

Single line of business

Focused business plan, serving the P&C Insurance Industry

Nationwide client base

SEC Registered Investment Adviser

We are members of the following:

- Investment Management Consultants Association (IMCA)
- Vermont Captive Insurance Association (VCIA)
- Captive Insurance Companies Association (CICA)
- District of Columbia Captive Insurance Council (DC-CIC)





Our Services

The investment management business has undergone an incredible evolution. However, through it all, the basic need for a fiduciary that ultimately understands and is responsible for the investment of client assets has remained remarkably constant.

Albert Heeg Investment Management is a unique firm. We provide investment advice to Captive and Commercial Property and Casualty Insurance Company investment portfolios. Albert Heeg Investment Management acts as “Chief Investment Officer” for the insurance company portfolio. We use our “Five Star” process to establish client goals, develop portfolio risk parameters, determine appropriate asset allocation, select the best portfolio managers and monitor the results.

We differentiate ourselves in the following ways:

1. We are Investment Advisors in the purest sense of the word. By design, we do not trade portfolio securities, thereby allowing us to manage the portfolio without conflict of interest.
2. With complete independence and objectivity, we search, select and hire the top performing investment managers. Understanding the client's profile, we focus on finding the best manager fit.
3. We manage the managers. We hire separate account managers for each asset class and then benchmark and test the performance of each manager.
4. We involve the client in the process. We strive to educate the client and raise their understanding of portfolio management.

Our Five Star Process

The Five Star Process is our proven method for building your insurance portfolio from the ground up. We stick to this annual process, because time and time again, clients have gained our trust, and experienced our commitment to building long term relationships that have their best interests in mind.

☆ Understand the Client

During this exploratory stage we seek to learn or re-learn each other's unique strengths and limitations so that we are both assured of a good fit.

- Discuss and understand the Client and Company's unique constraints.
- Determine surplus preservation and enhancement needs.
- Identify income and cash flow liquidity requirements.
- Clarify duties and responsibilities of the Investment Advisor and Client.

Result: The basis for the Investment Policy Statement and the beginning of a solid relationship.

☆ Establish the Portfolio's Building Blocks

Using information shared in the Relationship Building stage, we apply our advisory expertise and make portfolio recommendations. We will establish risk parameters, investment time frames, identify asset classes, appropriate benchmarks, and performance expectations. In this role, we may advise you to keep some of your existing strategies and we may make new recommendations. We are not selling any products and therefore, all recommendations are made with your best interests in mind.

- Explore the strength and suitability of the Client's existing portfolio.
- Evaluate peer captive or commercial companies.
- Develop risk parameters and investment time frames.
- Identify asset classes, appropriate benchmarks and performance expectations.

Result: Your portfolio is set up for success!

☆ **Develop the Portfolio Structure:** We evaluate, analyze and test the portfolio's structure using modeling and optimization software. We explore asset class correlations to strengthen the portfolio's fiber and quantify its' resiliency by running Dynamic Financial Analysis simulations.

- Analyze, test and establish portfolio's structure using optimization software.
- Explore asset class correlations to strengthen the portfolio's fiber.
- Quantify portfolio's resilience by running Dynamic Financial Analysis simulations.
- Finalize the Investment Policy Statement.

Result: An investment strategy to match your expectations.



☆ **Select and Hire Portfolio Managers:** We search, select and hire top performers for our database of over 2,000 investment managers and 10,000 investment products. We research risk, consistency, and return track records of potential managers and perform office visits and background checks.

- Identify suitable portfolio manager candidates from GIPS compliant database.
- Research risk, consistency and return track records of potential managers.
- Meet and interview the investment manager and his team.

Result: Top managers with proven track records working for you.

☆ **Perform Ongoing Portfolio Supervision:** We manage your portfolio in an advisory role, like a “surrogate” Chief Investment Officer. We will deliver quarterly reports of overall portfolio and individual manager performance, monitor managers and all other aspects of your portfolio.

- Regularly meet with Client.
- Report overall portfolio and individual manager performance quarterly.
- Continually monitor managers, as well as, all other aspects of the Client’s portfolio.

Result: We watch over your portfolio closely so you don’t have to.

Principal Owners

Albert Heeg is the sole owner.

Types of Advisory Services

In providing investment advice, AHIM offers the following services:

- (1) Analysis of a client’s financial portfolio leading to the development of a Statement of Investment Policy,
- (2) Selection of an asset allocation system, which may include securities of the following types: equities, fixed income, money market and mutual funds to implement the strategy,
- (3) Provides continuous and regular supervisory services, with discretionary authority to hire and fire managers,

- (4) Monitors the strategy via performance, including trading to reflect changes in system performance and/or market conditions, and
- (5) Quarterly reporting to client on investment results. Each client receives a quarterly GOLD BOOK.

Tailored Relationships

As an investment consultant, Albert Heeg Investment Management tailors strategies with the goal of producing returns which are both realistic and achievable.. Clients may impose restrictions on investing certain securities or types of securities.

Client Assets

As of December 31, 2013, Albert Heeg Investment Management managed approximately \$531,654,198.

FEES AND COMPENSATION

Description

Albert Heeg Investment Management provides investment advisory services to institutional clients. The fee arrangements are described below for portfolio management and management of investment managers. Fees are based on a percentage of assets under management and are payable quarterly, in advance. We do not directly debit our clients accounts for fees. A client may terminate participation at any time during a quarter. Fees received by AHIM for the quarter in which termination occurs will be refunded on a pro-rata basis. Lower fees for comparable services may be available from other sources.

The fee schedule is as follows:

Fee Schedule

On the first \$30 million 0.18% annually

On the next \$20 million 0.10% annually

On the balance 0.05% annually

In unusual circumstances, fees may be negotiated.

For portfolio study services the fees are payable when services are rendered (half up front). The fees for this type of service are either \$250 an hour or \$1,500 per day.





Other Fees

Other Fees You Should Understand:

Investment Management Fees:

AHIM on behalf of their clients selects and hires the Investment Managers. We take into consideration the fees charged by Investment Managers during the selection process. Clients will be responsible for the payment of these fees. Investment Manager fees are billed separately.

Custodial Fees:

We do not have custody of client assets. Therefore, each client appoints an approved insurance asset custodian and may be required to pay custodian fees and commissions.

Mutual Fund Fees:

Clients are responsible for the fees incurred by the mutual fund, which is subtracted daily as part of the NAV procedures. Additional information on the mutual fund expenses can be found in that respective funds prospectus.

PERFORMANCE-BASED FEES AND SIDE-BY-SIDE MANAGEMENT

Sharing of Capital Gains or Capital Appreciation

Albert Heeg Investment Management does not engage in performance based fees.

TYPES OF CLIENTS

Description

All of Albert Heeg Investment Management's clients are Captive and Commercial Property and Casualty Insurance Companies.

Account Minimums

In general, a minimum investment of \$2,000,000 is required to open an account. In unusual circumstances clients with assets under \$2,000,000 may be accepted.

METHODS OF ANALYSIS, INVESTMENT STRATEGIES AND RISK OF LOSS

Methods of Analysis

Asset Allocation Program:

Asset Allocation provides a system for diversifying a portfolio in order to reduce volatility and to protect a portfolio from significant decline in value. It applies the concepts of Modern Portfolio Theory as developed by Professors Harry Markowitz (University of Chicago) and William Sharpe (Stanford University). Markowitz was awarded the Nobel Prize in Economics in 1990 for the development of Modern Portfolio Theory.

Major emphasis is on the client's financial goals and objectives and its comfort level as to asset allocation among the economic benefits of (1) safety of principal, (2) income, and (3) growth. Specific strategies are then recommended to meet its objectives. Fundamental analysis is also utilized by AHIM, such as earnings growth, sales growth, price earning ratios, book value, dividend record, etc. in making an informed decision.

Our firm uses Morningstar's EnCorr software for asset allocation analysis. Developed by Ibbotson, EnCorr software provides us with the tools to research, create, analyze and implement optimal asset allocation strategies for our clients. We also utilize EnCorr's Monte Carlo Simulation tool to project possible future returns and wealth values for selected portfolios/assets. The simulated returns are sorted (highest to lowest) and organized into probability percentile ranges. The simulated returns are then used to calculate wealth values.

Other than planning for short-term liquidity needs, investment strategies are developed and employed to meet mid-range goals (3-5 years) and long-term financial plans, with heavy emphasis on income tax impact, risk tolerance, and professional management.



Investment Strategies

In advising its clients, AHIM, on a discretionary basis, selects separate account investment managers and general securities for inclusion in the client portfolio, and periodically adjusts, upward or downward, the percentage of each account's assets invested in various types of equity, bond, mutual fund and money market cash equivalents.

In making its investment decisions, AHIM researches and monitors the broad spectrum of asset allocation systems, separate managers, mutual funds and general investments available in the marketplace and then selects those managers or investments that have achieved an acceptable performance record within the securities industry. AHIM also monitors general economic conditions, trends in interest rates and inflation, and various financial market indices.

Investment Portfolio Development:

To further describe and illustrate the development of a portfolio structure, Albert Heeg Investment Management utilizes MorningStar's EnCorr Software for asset allocation analysis. Developed by Ibbotson Associates, EnCorr software provides us with the tools to research, create, analyze and implement optimal asset allocation strategies for our clients. The software is made up of six progressive subsets:

1. EnCorr Analyzer enables us to perform historical data analysis and create historical input files. We can examine the historical performance of data series from as early as 1926 and create graphs, charts and tables of statistical data. Historical analysis can be performed with data supplied by Ibbotson Associates, third party managers, as well as, our own user-defined data. With EnCorr Analyzer software, we can:

- a) Perform in-depth data analysis on historical capital markets
- b) View and graph data series
- c) Construct asset allocation inputs for portfolio optimization
- d) Create portfolios and performance benchmarks.

2. EnCorr Inputs Generator creates, refines and tests inputs for use in optimization. Its main feature is to build input files, which hold the required settings to run an optimization. We customize the input files by selecting assets from our own database, from the Ibbotson database or by entering our own constructed inputs. We can also open previously created input files in order to update/edit the contents.

3. EnCorr Optimizer develops, tests and analyzes an investor's asset allocation. It is based on Mean Variance Optimization (MVO), originally developed by Nobel Prize winner Harry Markowitz. Mean Variance Optimization is the process of identifying portfolios that have the highest possible return for a given level of risk, or the lowest possible risk given for a return. The Optimizer contains three main sections:

- a) Optimization Inputs: The Optimization Inputs section is the tabular section where the optimization case is created. In this section, we can select inputs, define current holdings, create any constraints, and refine the asset classes (inputs).
- b) The Efficient Frontier: The Efficient Frontier section is composed of the efficient frontier and other linked windows. In this section, we can create/view different portfolios on or off the efficient forecast, as well as, the probabilities of a portfolio achieving specific returns.
- c) Monte Carlo Simulation: This enables us to generate return and wealth percentile tables and graphs projecting the probability distribution of possible future returns and wealth values for selected portfolios/assets. The simulated returns are sorted (highest to lowest) and organized into probability percentile ranges. The simulated returns are then used to calculate wealth values.

4. EnCorr Attribution software allows us to determine which investment offers the best performance relative to a benchmark by reviewing historical averages. The Attribution track and examine a manager's policy, market timing and security selection decisions.





5. EnCorr Allocator software implements an asset allocation plan by searching for the manager mix that will bring the desired result. Allocator identifies whether the desired asset allocation is achievable with a given set of managers. It designates an optimal manager mix while minimizing tracking error.

6. EnCorr Scenario Builder software tests an asset allocation plan under a variety of market and economic conditions to determine how well it performs. It performs “what if” analysis under numerous market and economic conditions and demonstrates how investment vehicles perform under varying scenarios.

Portfolio Manager Database.

To assist us in interviewing and selecting investment managers, we subscribe to Informa Investment Solution’s PSN Enterprise. PSN Enterprise is a web based application powered by the PSN investment manager database, the most comprehensive data source for separate account information. This software will also provide connectivity to managed accounts, open ended mutual funds, closed end funds, exchange traded funds, hedge funds, fund of funds, stocks, variable annuities and other investment content as well. PSN boasts a global database of more than 2,000 investment managers, representing more than 10,000 domestic, global and international investment products. PSN gives us the ability to measure performance, conduct detailed statistical analysis, assess risk and monitor manager style drift. PSN also allows us to rank the investment managers in their respective universe. Information provided by Informa’s PSN Enterprise is accurate and GIPS compliant.

Using a criteria specifically design for our client, we narrow down the field to a handful of possible managers and personally interview each of them at their office. We want to observe each manager and their surroundings to understand, in their opinion, what makes them unique. To prepare for these meetings we study the firm’s statistics. During our on site visits, we go into these statistics in detail. We want to understand the manager’s investment philosophy. We ask the “hard questions.” Ultimately, we want to comprehend their business strategy and feel comfortable with what they’re telling us. But, before any manager selection is made, we typically watch the manager’s performance

for 6 months and regularly report back to our client.

At no time during this process do we receive any direct or indirect compensation from any manager or investment company. Each search process is strictly professional and in keeping with ethical standards. We always have a group of managers who we are interviewing and watching.

Risk of Loss

Although AHIM makes every effort to preserve each client’s capital and achieve real growth of wealth, investing in the markets involves risk of loss that each client should be prepared to bear, specifically:

Asset allocation risk

The allocations to the various asset classes and market sectors could cause the client’s portfolio to under perform other strategies with a similar investment objective.

Risks of stock investing

Stocks generally fluctuate in value and may decline significantly over short time periods. The value of a stock in which a client invests may decline due to general weakness in the stock market or because of factors that affect a company or a particular industry.

Risks of bond investing

Bonds have two main sources of risk. Interest rate risk is the risk that a rise in interest rates will cause the price of a debt security held by the client to fall. Securities with longer maturities typically suffer greater declines than those with shorter maturities. Mortgage backed securities can react somewhat differently to interest rate changes because falling rates can cause losses of principal due to increased mortgage prepayments and rising rates can lead to decreased prepayments and greater volatility. Credit risk is the risk that an issuer of a debt security will default (fail to make scheduled interest or principal payments), potentially reducing income distributions and market values. This risk is increased when a security is downgraded or the perceived creditworthiness of the issuer deteriorates.

DISCIPLINARY INFORMATION

Albert Heeg Investment Management and its employees have no reportable disciplinary history.



OTHER FINANCIAL INDUSTRY ACTIVITIES AND AFFILIATIONS

AHIM is not involved in any other financial industry activities or has any affiliations. As described under Types of Advisory Services AHIM does recommend and select investment managers to our clients; we do not receive any compensation either directly or indirectly for these recommendations.

CODE OF ETHICS, PARTICIPATION OR INTEREST IN CLIENT TRANSACTIONS AND PERSONAL TRADING

Code of Ethics

We do not buy or sell securities for our clients. We hire investment managers that execute trades. We maintain strict guidelines and a Code of Ethics of all our employees designed to assure that we, and persons associated with us, may not benefit, directly or indirectly, from transactions made for the accounts of clients and that no other conflict of interest exists. The Code of Ethics addresses at a minimum:

1. Requirement for all supervised persons to comply with all federal securities laws.
2. Reporting and review of all personal transaction reports for AHIM's defined Access Persons.
3. Pre-clearance for any purchases of IPOs or Private Placements by AHIM's defined Access Persons.
4. Prohibition against insider trading.
5. Protection of client information.
6. We provide a copy of our Code of Ethics to our clients or to prospective clients upon request.

BROKERAGE PRACTICES

Selecting Brokerage Firms

AHIM hires the investment managers for our clients and these investment managers are responsible for selecting the brokers and clerks who seek to obtain the most favorable prices and best execution available.

Research and Soft Dollars

We do not receive research, other products or services in connection with client securities transactions ("soft dollar benefits").

REVIEW OF ACCOUNTS

Periodic Reviews

The nature and frequency of account reviews depends on the type of investment account being managed. Reviews are conducted by AHIM professional staff to ensure that the accounts are being managed in accordance with stated investment objectives and policies. Accounts are generally monitored on a daily, monthly or quarterly basis, depending upon the needs of the client. Based on these reviews, AHIM may either make or recommend securities purchases or sales for its clients.

At least quarterly, AHIM attempts to determine if there have been any changes in the client's financial situation. Annually, AHIM reviews with its clients their investment objectives and strategies, as well as the performance of their accounts. From time to time, AHIM may communicate with its clients via newsletter.

We are available each and every day. Also, as part of our service model, we schedule quarterly meetings with the Investment Committee at their work site.

Regular Reports

Albert Heeg Investment Management produces a quarterly GOLD BOOK for each client. The GOLD BOOK is designed to provide most of the information Investment Committee members require so that they can stay informed and make educated decisions regarding their investments. This GOLD BOOK reports on portfolio income, includes portfolio manager returns versus benchmark performance, asset class weightings, industry comparatives and risk measurement data. In addition this book contains custodian and compliance reports, securities watch lists, security impairment details and reports on investment committee study issues.





CLIENT REFERRALS AND OTHER COMPENSATION

AHIM welcomes client referrals but, does not have any referral arrangements or is involved in any compensation other than what is described under Fees and Compensation above.

CUSTODY

Account Statements

All client assets will be held by a qualified bank custodian or registered broker dealers. Clients receive monthly account statements from their custodians and we urge them to compare our reports against their respective custodial statements.

INVESTMENT DISCRETION

Discretionary Authority for Trading

Clients provide us discretionary authority to hire and fire other investment managers selected on their behalf. Investment managers have discretionary trading authority.

VOTING CLIENT SECURITIES

Proxy Voting

Our clients are all considered “sophisticated” and we believe should vote proxies themselves. We limit our proxy services to providing them all the appropriate requested information, as well as, other background information that they may need in order to satisfactorily vote their proxy. Clients receive proxy voting information directly from their custodian. Some clients may chose to have their Investment Manager vote their proxy.

FINANCIAL INFORMATION

We do not require or solicit prepayment of more than \$1,200 in fees per client, six months or more in advance and such are not required to include our most current balance sheet. We have not been the subject of a bankruptcy petition at any time during the past ten years.

Albert Heeg Investment Management
2231 Harbor Bay Parkway
Alameda, CA 94502

Phone: 510-864-2900 ★ Fax: 510-864-2901
albert@heeg.com ★ www.heeg.com