

**Firm Brochure**  
(Part 2A of Form ADV)

# **AUA CAPITAL MANAGEMENT, LLC**

**1100 Bent Creek Boulevard  
2<sup>nd</sup> Floor  
Mechanicsburg, PA 17050**

This brochure provides information about the qualifications and business practices of AUA Capital Management. From time to time, we may refer to the document as the "Brochure." If you have any questions about the contents of the Brochure, please contact us at 717-795-1077 or by e-mail at [michael.salerno@auacapital.com](mailto:michael.salerno@auacapital.com). The information in the Brochure has not been approved or verified by the United States Securities and Exchange Commission, or by any state securities authority.

Additional information about AUA Capital Management is available for review on the SEC's website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov). Registration with the SEC and/or other state securities commissions does not imply a certain level of skill or training.

December 27, 2013

## **Material Changes**

### **Annual Update**

The **Material Changes** section of this Brochure will be updated annually and also promptly whenever material changes occur.

### **Material Changes since the Last Update**

There have been material changes to our brochure since the last update which occurred on October 28, 2013. This updated brochure reflects a name change for our firm from Salerno Capital Management, LLC to AUA Capital Management, LLC. Also, as a result of change in our assets under management, we are filing to request a change in the regulator from the Pennsylvania Department of Banking and Securities to the United States Securities and Exchange Commission.

### **Full Brochure Available**

Whenever you would like to receive a complete copy of our Brochure, please contact Michael E. Salerno by telephone at 717-795-1077 or by email at [michael.salerno@auacapital.com](mailto:michael.salerno@auacapital.com).

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## **Advisory Business**

### **Firm Description**

AUA Capital Management is an investment advisor located in Mechanicsburg, PA. AUA Capital Management commenced operations in July of 2012. On July 17, 2013, a transaction was completed whereby AUA Family Office Management, LLC became a 52% owner. AUA Family Office Management is owned by Andrew Unanue. The owners of AUA Capital Management are AUA Family Office Management, LLC and Michael E. Salerno.

### **Types of Advisory Services**

AUA Capital Management provides continuous investment management based on the individual needs of the client on a discretionary and, in unique situations, on a non-discretionary basis. We manage individual portfolios of bonds, stocks, third party funds and exchange traded funds.

We provide investment advisory services to family groups, high net worth individuals and institutions. The firm focuses on helping our clients meet their investment objectives by developing and managing multi-asset global investment portfolios. We principally provide global asset allocation strategy, security selection and portfolio management services. The firm oversees portfolios of individual securities, exchange traded funds (ETFs) and allocates to third party managers in order to accomplish the investment objectives of our client's portfolios. We use third-party managers in the form of separate account managers, specialized investment partnership structures and mutual funds where appropriate. Our approach emphasizes preservation and enhancement of asset accumulation through a long-term and prudent investment strategy.

### **Tailored Relationships**

Asset management involves more than just investment management. It begins with developing an understanding the client's objectives, portfolio and investment policies. AUA Capital Management will collect information on matters that are relative to a particular client. These may include the client's, assets, investments, tax status, investment and distribution policies. AUA Capital Management uses this information to evaluate and develop portfolio solutions.

The AUA Capital Management approach to risk and asset management can include some or all of the following activities:

- asset allocation and portfolio management
- advising on general investment strategies and policies
- coordinating strategies with the client's other advisors

## **Wrap Fee Programs**

AUA Capital Management does not participate in wrap fee programs.

## **Client Assets**

AUA Capital Management manages discretionary assets; however, we may from time to time accept non-discretionary accounts.

## **Fees & Compensation**

### **Description**

Subject to the conditions set out below, the minimum initial amount of assets to establish an account with us is \$1,000,000. We charge our clients on a quarterly basis for our services. AUA is compensated by fees paid by clients. Fees charged are either a percentage of the market value of the client assets under management by AUA or a fixed fee. The percentage used to calculate the fee will be equal to or less than one percent (1%) for all accounts except some investment partnership accounts. In the case of investment partnerships the fee could be as high as two percent (2%) if the partnership activity is particularly research, trading or labor intensive.

The annual fees and minimum initial account value set out above may be subject to negotiation. The fee may differ based upon a number of factors, including, but not limited to, the size of the account and the length of our relationship with the account owner(s). In certain instances we may accept an engagement as adviser for an account with an opening value less than \$1,000,000 and may charge a higher fee.

In certain circumstances AUA may provide consulting services to clients outside the scope of our typical investment management engagement. In these cases an additional may be charged to the client.

### **Fee Billing**

Fees can either be deducted from client accounts or billed directly to the client. Clients may select either method. If a client agrees, through our fee agreement, to have fees deducted from their account, we will send the third-party custodian an electronic notice of the amount of the fees to be deducted from the account. We will also send the client a written or electronic invoice itemizing the fee being deducted, which invoice will specify the formula used to calculate the fee, the time period covered by the fees and the assets under management on which the fee was calculated.

Clients are billed quarterly in arrears and advised in writing at the beginning of the relationship that they may terminate our services on any quarterly billing date. The fee from any client shall begin to accrue on the first Business Day (as described below) after the settlement dates for the initial investment in the program. For the purposes of

the timing of payment for our fees, a Business Day shall mean any day that the New York Stock Exchange is open for business. The fee payment will be billed quarterly, in arrears and shall be based on the fair market value of the assets under management on the last calendar day of the just completed quarter. For any partial periods, the fee will be pro-rated accordingly. The fee shall become due on the fifth Business Day of the first month of the then current calendar quarter.

In addition to paying the fees described above, clients will pay fees to third-party investment managers that are engaged by us on the client's behalf. Clients who own mutual funds will be subject to the expenses imposed by these funds on their shareholders. We have no interest in these fees, and we receive no benefit because of them. We feel it is important for our clients to consider all management and mutual fund charges and fees when they evaluate the total cost of an investment program with us.

The agreement which is entered into between a client and our firm may be terminated at any time by written notice of either party, including termination in respect to a portion of the assets then included in the portfolio by written notice of the client.

In addition to AUA Capital Management management fees and the fees of third-party investment managers, clients pay commissions or transaction fees to their broker or custodian, along with exchange fees. Certain accounts, such as trust accounts that require a corporate trustee, incur a custody fee, while standard brokerage account are typically free from custody fees. Mutual funds often charge multiple fees, including management fees and general expenses of the fund. This fee is charged in addition to the AUA Capital Management fee for services. For additional information, please see page 4 regarding brokerage practices.

AUA Capital Management and its supervised persons do not accept compensation for the sale of securities.

## **Performance-Based Fees**

### **Sharing of Capital Gains**

AUA Capital Management does not use a performance-based fee structure. Performance-based compensation may create an incentive for the adviser to recommend an investment that may carry a higher degree of risk to the client.

## **Types of Clients**

### **Description**

AUA Capital Management provides investment advice to individuals, trusts, estates, charitable organizations and pension and profit sharing plans.

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

### **Investment Approach**

We provide investment solutions for clients. Our approach is comprised of understanding the unique situation of our clients and then applying our investment methodologies to help the client effectively manage their particular investment circumstances. We believe a highly disciplined, unemotional method of evaluating and systematically managing risk/reward is necessary for successful portfolio management.

We use both fundamental research and quantitative methods to construct portfolios with specific risk and return parameters. The investments in the portfolio are constantly monitored and changes are made to reflect both new information about the markets and specific securities.

### **Investment Methodology**

The allocation of the portfolio betas (market risk exposures) typically represents a large majority of a portfolio's long-term performance. As a result, we focus on identifying the market regime and selecting the investment securities which we believe possess the risk /return exposure which is appropriate for that market environment. Our typical portfolio has various weights among risk exposures that may include Cash, Global Fixed Income, U.S. Equities, International Equities, Real Estate, Commodities and Currencies. To enhance return and manage risk we may invest in specific sectors, invest in instruments that "short" sectors or asset classes, utilize specific trading strategies (example hedged equity) or to a limited degree utilize option strategies if approved within the client's account.

The performance of the portfolio is measured against appropriate and measurable indices such as a global equity benchmark and an intermediate bond index.

### **Portfolio Management:**

AUA Capital Management provides both customized portfolio management and general investment consulting services. We use a broad suite of economic and market indicators in order to identify the overall market environment. These indicators include both fundamental and technical market information including valuation of investments and specific indicators designed to identify market regime and risk levels.

Our general portfolio approach is to select a strategic allocation based upon historical and forecasted return, volatility and correlation and then adjust this allocation for our assessment of the current market environment. We then select investments based on our proprietary research methodology that includes fundamental analysis as well as utilizing certain market based indicators.



The portfolio may include domestic and foreign equities and bonds, commodities, currencies as well as alternative investments such as hedge funds. The portfolios are held at an independent custodian in the client's name.

### Custom Investment Management Services

Investment management services are generally provided in a discretionary mandate. Typically we will build a strategic asset management model. At the client's request we may factor in the client's existing holdings and managers. Where we implement specific investments we generally utilize exchange traded funds and index type instruments as well as individual securities in order to obtain asset class exposure. On a limited basis we may also construct portfolios where we purchase and sell options against cash and underlying asset positions. Our use of option strategies in portfolios is designed to reduce the volatility and risk of loss in portfolios and thereby generate attractive risk adjusted returns.

The process may begin with a determination of the client's investment policies and objectives. We review the client's present assets, distribution policy, risk objectives and other similar data points. Variables such as asset allocation strategies, funding and spending policies and time horizon are important variables. Complex analyses may fall within the definition of consulting and may involve the payment of a separate fee.

During this process, we work to reach understanding with the client on a strategy to achieve his or her risk and return objectives. AUA Capital Management cannot guarantee to the client that those objectives will be met. Investment supervisory services are provided for a fee based on a percentage of assets under management.

We utilize three primary methods for establishing investment portfolios for our clients:

1. Portfolios of individual securities including stocks, bonds and exchange-traded funds managed by AUA Capital Management.
2. Portfolios managed by outside managers in the form of actively managed mutual funds or separate accounts managed by third-party managers where the client owns the individual securities.
3. Specialized investment partnerships (hedge funds and private equity funds).

The determination of how funds are allocated to our three primary methods is a function of a number of factors including the level of assets we manage on behalf of the client, the time horizon and risk tolerance of the client and the type of assets we receive when we are engaged to provide advisory services.

### **Security Selection**

Individual portfolios are constructed based the market regime and risk preference level of the client and utilize individual stocks, bonds, exchange-traded funds (etf) and exchange-traded notes (etn). These securities may include individual stocks, stock indices, sector exposures, factor exposures real estate investment trusts, master limited

partnerships, bonds and bond indices, commodity and currency etfs and etns. We utilize economic and security research from a variety of sources. Further we utilize proprietary security selection and portfolio construction methodologies. These include quantitative and discretionary approaches.

### **Outside Manager Search & Selection Process**

Typically we select and manage a portion of the securities used in a client portfolio. We may also use third-party managers to achieve specific return/risk exposures, gain access to certain trading strategies or what we believe is superior investment management expertise. These exposures may be obtained through mutual funds, actively managed etfs or hedge fund or private equity partnerships.

### **Portfolio Performance Evaluation**

The performance of the portfolio is calculated and reported on a quarterly and year-to-date basis. Our reporting package monitors return, asset allocation, short and long-term capital gains and losses and evaluates the portfolio on a consolidated basis.

### **Risk of Loss**

All investment programs have certain risks that the investor will bear. AUA Capital Management's investment approach keeps the risk of loss in mind. The list below includes many of the risks Clients face:

- **Interest-rate Risk:** Fluctuations in interest rates may cause investment prices to fluctuate. For example, when interest rates rise, yields on existing bonds become less attractive, causing their market values to decline.
- **Market Risk:** The price of a security, bond or mutual fund may drop in reaction to tangible and intangible events and conditions. This type of risk is caused by external factors independent of a security's particular underlying circumstances. For example, political, economic and social conditions may trigger market events.
- **Inflation Risk:** When any type of inflation is present, a dollar today will not buy as much as a dollar next year, because purchasing power is eroding at the rate of inflation.
- **Currency Risk:** Overseas investments are subject to fluctuations in the value of the dollar against the currency of the investment's originating country. This is also referred to as exchange rate risk.
- **Reinvestment Risk:** This is the risk that future proceeds from investments may have to be reinvested at a potentially lower rate of return (i.e. interest rate). This primarily relates to fixed income securities.
- **Business Risk:** These risks are associated with a particular industry or a particular company within an industry. For example, oil-drilling companies depend on

finding oil and then refining it, a lengthy process, before they can generate a profit. They carry a higher risk of profitability than an electric company, which generates its income from a steady stream of customers who buy electricity no matter what the economic environment is like.

- **Liquidity Risk:** Liquidity is the ability to readily convert an investment into cash. Generally, assets are more liquid if many traders are interested in a standardized product. For example, Treasury Bills are highly liquid, while real estate properties are not.
- **Financial Risk:** Excessive borrowing to finance a business' operations increases the risk of profitability, because the company must meet the terms of its obligations in good times and bad. During periods of financial stress, the inability to meet loan obligations may result in bankruptcy and/or a declining market value.

## **Disciplinary Information**

### **Legal & Disciplinary**

Neither AUA Capital Management nor anyone employed by it have been involved in legal or disciplinary events related to past or present investment clients.

## **Other Financial Industry Activities & Affiliations**

AUA Capital Management and its management persons have no other financial industry activities and affiliations.

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

### **Code of Ethics**

AUA Capital Management has adopted a code of ethics requiring all personnel associated with the company to act as fiduciaries solely in the best interest of its clients. The code sets out principles to be followed and obligations of all those associated with the company. Copies of our Code of Ethics are available by calling Michael E. Salerno at 717-795-1077 or by writing him at 1100 Bent Creek Boulevard, 2<sup>nd</sup> Floor, Mechanicsburg, PA 17050.

### **Participation or Interest in Client Transactions & Personal Trading**

With respect to personal transactions, employees and other related persons, from time to time, will be buying and selling securities recommended to clients. Employees are permitted to effect transactions at the same time and in a manner consistent or inconsistent with transactions being executed in client accounts, without preclearance, as long as the securities traded are not listed on AUA Capital Management's restricted

list at the time of the transaction. Employees are restricted from trading securities on AUA Capital Management's restricted list for their own accounts without prior authorization to prevent the potential for conflict of interest. Securities that are not restricted include those that are highly liquid, publicly traded and/or with market capitalizations of more than \$1 billion. Securities that do not meet these criteria will not necessarily be restricted if they are not being actively traded for client accounts.

All access persons are required to file annual holdings reports and quarterly transaction reports for reportable securities. Additionally, we have procedures in place to monitor personal trading to determine with reasonable assurance compliance with these provisions.

## **Brokerage Practices**

### **Selecting Brokerage Firms & Soft Dollars**

When recommending brokers to clients for client transactions, AUA Capital Management considers multiple factors. We select brokers based on some specialized expertise or access to securities with limited supply (municipal bonds as an example) that are generally not available through all brokers simultaneously. When selecting a brokerage firm, one may consider a number of factors, including but not limited to:

- The nature of the security being traded;
- The size and type of the transaction;
- The nature and character of the markets for the security to be purchased or sold;
- The desired timing of the trade;
- The activity existing and expected in the market for the particular security;
- Confidentiality, including trade anonymity;
- The quality of the execution, clearance and settlement services;
- Financial stability of the broker-dealer; and
- The broker-dealers execution capabilities, including block positioning, and ability to obtain best price and execution.

We do not participate in any soft dollar arrangements, whereby we would receive a benefit in return for trading with a certain broker. We also do not receive referrals from brokers in exchange for commissions. For those reasons, there is no conflict of interest when we recommend any broker to a client.

While we do not require clients to direct us to use specific brokers, clients may request or require we use their preferred broker for custody and/or trading of their account. When this occurs, we explain to the client the potential for additional costs related to using their preferred broker. This is often as a result of higher commissions because their preferred broker does not offer as competitive a rate. We generally do not make undirected attempts to negotiate commission rates.

## **Review of Accounts**

### **Periodic Reviews**

AUA Capital Management performs reviews of all accounts under its management to ensure that the various client portfolio structures are in line with the client's investment objectives. Investment policy is reviewed and individual securities are analyzed in the light of current economic and financial reports. Portfolio changes are then considered.

### **Review Triggers**

Other conditions that may trigger a review are unforeseen changes in the marketplace, changes in investment information and changes in a client's policies or investment situation. Changes in client accounts may be implemented at any time, if appropriate to the client's situation, subject to constraints placed upon AUA Capital Management by the client.

### **Regular Reports**

The nature and frequency of portfolio reports to clients occur on a quarterly basis. These reports include portfolio summaries, unrealized gains and losses, realized gains and losses and performance calculations on the entire portfolio and each asset class.

Monthly reports provided by the client's custodian (not AUA Capital Management), give detailed information such as change in the account's value versus the previous month, current value of all account holdings, and a detailed transaction history for the reporting period.

No client statements are issued for consulting services.

## **Client Referrals & Other Compensation**

### **Incoming Referrals**

If AUA Capital Management is fortunate to receive occasional client referrals, we expect these will come from current clients, business professionals and other similar sources. We do not compensate referring parties for these referrals.

## **Referrals Out**

AUA Capital Management does not accept referral fees or any form of remuneration from other professionals when a prospect or client is referred to them.

## **Other Compensation**

AUA Capital Management receives no compensation not discussed in earlier sections of the Brochure.

## **Custody**

### **Account Statements**

AUA Capital Management will not have the authority to withdraw client funds, nor will it serve as custodian of any client funds or securities. All assets are held at qualified custodians, which mean the custodians provide account statements directly to clients at their address of record at least quarterly.

### **Reports**

Clients are urged to compare the account statements received directly from their custodians to the additional statements provided by AUA Capital Management.

### **Technical Definition of Custody**

There is one circumstance in which we will be considered to have "custody" as defined by the SEC. We may submit invoices for the payment of AUA Capital Management Investment Supervisory or Advisory Fees to custodians if the client has specifically authorized those custodians to deduct those fees from the account and to pay those fees directly to us. The authority to submit fee invoices to the custodian for payment meets the technical definition of "custody" of funds as defined by the SEC.

## **Investment Discretion**

### **Discretionary Authority for Trading**

We receive full discretionary authority on the portfolio for all investment decisions. Our purchase and sale decisions are based upon meeting the investment policy objectives of the client.

We use various broker dealers to execute transactions. We generally use firms with the best price and execution at their then standard, and where possible discounted, commission rates. We may consider the research capabilities of other brokerage firms, including reputation and standing of their analysis and investment strategies. If transaction costs by one broker are higher than another broker, we will determine in good faith that the amount of such transactions costs is reasonable in relation to the value of the brokerage and research services provided.

In certain limited circumstances we may accept a non-discretionary investment advisory engagement.

### **Limited Power of Attorney**

AUA Capital Management's discretionary clients sign a discretionary agreement granting us limited power of attorney. That agreement gives us the authority to buy, sell, exchange and trade in stocks, bonds and any other securities selected by AUA Capital Management for the benefit of the client.

## **Voting Client Securities**

### **Proxy Votes**

AUA Capital Management does not vote proxies unless explicitly requested to do so in writing by the client. If explicitly requested to do so, we will act in a manner which we deem prudent and diligent and which is intended to enhance the economic value of the securities held in client accounts.

In the rare instance when we do vote proxies, we discuss with the client the possibility that conflicts of interest could arise in connection with that proxy voting.

AUA Capital Management will provide a copy of the Proxy Voting Policy upon request and without charge. We will also provide to any client, upon request and without charge, information regarding how proxies for their securities were voted, if they have explicitly requested us to vote for them.

## **Financial Information**

### **Financial Condition**

AUA Capital Management does not have any financial impairment that will preclude the firm from meeting contractual commitments to clients.

A balance sheet is not required to be provided because we do not serve as a custodian for client funds or securities, and we do not require prepayment of fees of more than \$1,200 per client and six months or more in advance.

The principal executive officer of the management of AUA Capital Management is Michael E. Salerno. While Andrew Unanue maintains a 52% ownership in the firm, he has no day to day responsibilities concerning firm operations. Information concerning the background and business experience of Michael can be found in the Part 2B of Form ADV for AUA Capital Management.

### **Other Business Activities**

Information responsive to this item can be found in the Part 2B of Form ADV of AUA Capital Management.

**Performance-Based Fees**

AUA Capital Management does not charge performance-based fees.

**Disciplinary History**

As is detailed in Part 2B of Form ADV for AUA Capital Management, there is no information to disclose in this Section.

**Relationships or Arrangements with Issuers**

None.