

# Wrap Fee Program Brochure

January 3, 2014

## **M3 Asset Management Program**

*Sponsored By*

### **M3 Asset Management, Inc.**

*a Registered Investment Adviser*

This brochure provides information about the qualifications and business practices of M3 Asset Management, Inc. (hereinafter “M3 Asset Management” or the “Firm”). If you have any questions about the contents of this brochure, please contact the Firm at the telephone number listed below. 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. Additional information about the Firm is available on the SEC’s website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov). M3 Asset Management is an SEC registered investment adviser. Registration does not imply any level of skill or training.

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## **Item 2. Material Changes**

In this Item, M3 Asset Management is required to discuss any material changes that have been made to the brochure since the last annual amendment. As this brochure has been prepared in connection with the Firm's initial application for investment adviser registration, there are no such material changes to disclose.

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## Item 4. Advisory Business

The M3 Asset Management Program (the “Program”) is an investment advisory program sponsored by M3 Asset Management, a registered investment adviser, formed in 2013 and wholly owned by Jim Kim.

As of the date of this filing, M3 Asset Management does not have any assets under management; however, the Firm reasonably expects to have at least \$100 million under its management within 120 days of SEC approval.

While this brochure generally describes the business of M3 Asset Management, certain sections also discuss the activities of its Supervised Persons, which refer to the Firm’s officers, partners, directors (or other persons occupying a similar status or performing similar functions), employees or any other person who provides investment advice on M3 Asset Management’s behalf and are subject to the Firm’s supervision or control.

### Description of the Program

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The Program is offered as a wrap fee program, which provides clients with the ability to trade in certain investment products without incurring separate brokerage commissions or transaction charges. A wrap fee program is considered any arrangement under which clients receive investment advisory services (which may include portfolio management or advice concerning the selection of other investment advisers) and the execution of client transactions for a fee not based upon transactions in their accounts.

M3 Asset Management primarily provides clients with investment management services. The Firm manages client investment portfolios on a discretionary or non-discretionary basis. In addition, such investment management services may include financial planning and consulting services.

Prior to receiving services through the Program, clients are required to enter into a written agreement with M3 Asset Management setting forth the relevant terms and conditions of the advisory relationship (the “Agreement”). Clients must also open a new securities brokerage account and complete a new account agreement with a qualified custodian – e.g., Schwab Advisor Services<sup>TM</sup> (“Schwab”) or another custodian M3 Asset Management approves under the Program (collectively “Financial Institutions”).

### Fees for Participation in the Program

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Investment advisory services are offered to clients through the Program for a fee based upon a percentage of each client’s assets under the Firm’s management (the “Program Fee”). Additionally, certain of M3 Asset Management’s Supervised Persons, in their individual capacities, may offer securities brokerage services and insurance products under a separate commission arrangement.

The asset-based Program Fee generally varies between 25 and 200 basis points (0.25% – 2.00%), depending upon the amount of assets being managed under the Program and the type of investment management services to be rendered. To the extent independent investment managers (“Independent

Managers”) are engaged by the Firm to manage certain portions of its clients’ assets, such Independent Managers generally receive between 20 and 50 basis points (0.20% – 0.50%) of the Program Fee.

The Program Fee is generally charged quarterly, in advance, and calculated using the market value of the assets being managed by M3 Asset Management on the last day of the previous billing cycle. If assets are deposited into or withdrawn from an account after the inception of a billing period, the fee payable with respect to such assets is prorated to account for the interim change in portfolio value. For the initial term of the Program, the fee is calculated on a pro rata basis. In the event the client relationship is terminated, the fee for the final billing period is prorated through the effective date of the termination and the outstanding balance is refunded or charged to the client, as appropriate.

### **Fee Comparison**

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As referenced above, a portion of the fees paid to M3 Asset Management are used to cover the securities brokerage commissions and transactional costs attributable to the management of its clients’ portfolios. Services provided through the Program may cost clients more or less than purchasing these services separately. The number of transactions made in clients’ accounts, as well as the commissions charged for each transaction, determines the relative cost of the Program versus paying for execution on a per transaction basis and paying a separate fee for advisory services. Since M3 Asset Management will pay the transaction/executions costs associated with equities transactions, there is a conflict of interest because the Firm has a disincentive to trade securities. The Program Fees may also be higher or lower than fees charged by other sponsors of comparable investment advisory programs.

### **Fee Discretion**

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M3 Asset Management, in its sole discretion, may negotiate to charge a lesser fee based upon certain criteria, such as anticipated future earning capacity, anticipated future additional assets, dollar amount of assets to be managed, related accounts, account composition, pre-existing client relationship, account retention and pro bono activities.

### **Use of Margin**

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In limited circumstances, M3 Asset Management may be authorized to use margin in the management of a client’s investment portfolio. In these cases the fee payable will be assessed gross of margin such that the market value of the client’s account and corresponding fee payable by the client to M3 Asset Management will be increased.

### **Fee Debit**

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Clients generally provide M3 Asset Management with the authority to directly debit their accounts for payment of the Program Fee. Any Financial Institutions recommended by M3 Asset Management, including Schwab, have agreed to send statements to clients not less than quarterly indicating all

amounts disbursed from the account, including the amount of Program Fees paid directly to M3 Asset Management.

### **Account Additions and Withdrawals**

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Clients may make additions to and withdrawals from their account at any time, subject to M3 Asset Management's right to terminate an account. Additions may be in cash or securities provided that the Firm reserves the right to liquidate any transferred securities or decline to accept particular securities into a client's account. Clients may withdraw account assets on notice to M3 Asset Management, subject to the usual and customary securities settlement procedures. However, the Firm generally designs its portfolios as long-term investments and the withdrawal of assets may impair the achievement of a client's investment objectives. M3 Asset Management may consult with its clients about the options and implications of transferring securities. Clients are advised that when transferred securities are liquidated, they may be subject to transaction fees, fees assessed at the mutual fund level (e.g., contingent deferred sales charge) and/or tax ramifications.

### **Other Charges**

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Clients may incur certain charges imposed by third parties in addition to the Program Fee. These additional charges may include, but are not limited to, custody fees, alternative investment custody fees, certain charges imposed directly by Independent Managers engaged to provide services through the Program, a mutual fund or exchange-traded fund ("ETF") in the account, as disclosed in the fund's prospectus (e.g., fund management fees and other fund expenses), deferred sales charges, odd-lot differentials, transfer taxes, wire transfer and electronic fund fees, and other fees and taxes on brokerage accounts and securities transactions.

### **Compensation for Recommending the Program**

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M3 Asset Management has no internal arrangements in place whereby persons recommending the Program are entitled to receive additional compensation as a result of clients' participation.

## **Item 5. Account Requirements and Types of Clients**

### **No Minimum Account Requirements**

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M3 Asset Management does not impose a stated minimum fee or minimum portfolio value for starting and maintaining an investment management relationship. Certain Independent Managers may, however, impose more restrictive account requirements and varying billing practices than M3 Asset Management. In such instances, the Firm may alter its corresponding account requirements and/or billing practices to accommodate those of the Independent Managers.

## Types of Clients

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Services through the Program are offered to individuals, banking and thrift institutions, pension and profit sharing plans, trusts, estates, charitable organizations, corporations and other business entities.

## Item 6. Portfolio Manager Selection and Evaluation

### Investment Portfolio Management

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M3 Asset Management manages client investment portfolios on a discretionary or a non-discretionary basis by primarily allocating assets among various mutual funds, ETFs, individual debt and equity securities and options, and in more limited circumstances, among Independent Managers, all in accordance with the investment objectives of its individual clients.

M3 Asset Management may also recommend that clients who qualify as accredited investors, as defined by Rule 501 of the Securities Act of 1933, invest in privately placed securities, which may include debt, equity and/or interests in pooled investment vehicles (e.g., hedge funds). The Firm may advise on variable life insurance and annuity contracts and assets held in employer sponsored retirement plans and qualified tuition plans (i.e., 529 plans). In these situations, M3 Asset Management directs or recommends the allocation of client assets among the various investment options available with the product. These assets are generally maintained at the underwriting insurance company or the custodian designated by the product's provider. Where appropriate, the Firm may also provide advice about any type of legacy position or other investment held in client portfolios.

When providing financial planning or consulting services in conjunction with an investment management offering, the Firm is not required to verify any information received from the client or from the client's other professionals and is expressly authorized to rely on such information.

M3 Asset Management tailors its advisory services to meet the needs of its individual clients and continuously seeks to ensure that client portfolios are managed in a manner consistent with their specific investment profiles. M3 Asset Management consults with clients on an initial and ongoing basis to determine their specific risk tolerance, time horizon, liquidity constraints and other qualitative factors relevant to the management of their portfolios. Clients are advised to promptly notify M3 Asset Management if there are changes in their financial situation or if they wish to place any limitations on the management of their portfolios. Clients may impose reasonable restrictions or mandates on the management of their accounts if M3 Asset Management determines, in its sole discretion, the conditions would not materially impact the performance of a management strategy or prove overly burdensome to the Firm's management efforts.

## **Selection of Independent Managers**

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M3 Asset Management evaluates various information about the Independent Managers in which it selects to manage client assets under the Program. The Firm generally reviews a variety of different resources, which may include the Independent Managers' public disclosure documents, materials supplied by the Independent Managers themselves, and other third-party analyses it believes are reputable. To the extent possible, the Firm seeks to assess the Independent Managers' investment strategies, past performance and risk results in relation to its clients' individual portfolio allocations and risk exposures. M3 Asset Management also takes into consideration each Independent Manager's management style, returns, reputation, financial strength, reporting, pricing and research capabilities, among other related factors.

M3 Asset Management generally monitors the performance of those accounts being managed by Independent Managers by reviewing the account statements produced by the Financial Institutions, as well as other performance information furnished by the Independent Managers and/or other third-party providers. The Firm does not verify the accuracy of any such performance information and does not ensure its compliance with presentation standards. Clients are advised that any performance information they receive from the Independent Managers may not be calculated on a uniform and consistent basis. Clients should compare all supplemental materials with the account statements they receive from their respective custodians.

The terms and conditions under which an Independent Manager is engaged on behalf of a client are set forth in a separate written agreement between M3 Asset Management and the designated Independent Manager. In addition to this brochure, the client also receives the written disclosure brochure of the designated Independent Managers engaged to manage their assets.

## **Side-By-Side Management**

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M3 Asset Management does not provide any services for a performance-based fee (i.e., a fee based on a share of capital gains or capital appreciation of a client's assets).

## **Methods of Analysis**

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M3 Asset Management utilizes fundamental and technical methods of analysis.

Fundamental analysis involves an evaluation of the fundamental financial condition and competitive position of a particular fund or issuer. For M3 Asset Management, this process typically involves an analysis of an issuer's management team, investment strategies, style drift, past performance, reputation and financial strength in relation to the asset class concentrations and risk exposures of the Firm's model asset allocations. A substantial risk in relying upon fundamental analysis is that while the overall health and position of a company may be good, evolving market conditions may negatively impact the security.



Technical analysis involves the examination of past market data rather than specific issuer information in determining the recommendations made to clients. Technical analysis may involve the use of mathematical based indicators and charts, such as moving averages and price correlations, to identify market patterns and trends which may be based on investor sentiment rather than the fundamentals of the company. A substantial risk in relying upon technical analysis is that spotting historical trends may not help to predict such trends in the future. Even if the trend will eventually reoccur, there is no guarantee that M3 Asset Management will be able to accurately predict such a reoccurrence.

### **Investment Strategies**

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The Firm takes a complete and holistic approach to portfolio management and each client has an investment strategy tailored to their particular needs and risk tolerance. M3 Asset Management's investment discipline is rooted in broad asset allocation across multiple asset classes, diversification in an effort to reduce portfolio risk and frequent monitoring to seek to ensure that client portfolios are managed in a manner consistent with their specific investment profiles.

### **Risks of Loss**

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#### *General Risk of Loss*

Investing in securities involves the risk of loss. Clients should be prepared to bear potential losses.

#### *Market Risks*

The profitability of a significant portion of M3 Asset Management's recommendations may depend to a great extent upon correctly assessing the future course of price movements of stocks and bonds. There can be no assurance that M3 Asset Management will be able to predict those price movements accurately.

#### *Mutual Funds and ETFs*

An investment in a mutual fund or ETF involves risk, including the loss of principal. Mutual fund and ETF shareholders are necessarily subject to the risks stemming from the individual issuers of the fund's underlying portfolio securities. Such shareholders are also liable for taxes on any fund-level capital gains, as mutual funds and ETFs are required by law to distribute capital gains in the event they sell securities for a profit that cannot be offset by a corresponding loss.

Shares of mutual funds are generally distributed and redeemed on an ongoing basis by the fund itself or a broker acting on its behalf. The trading price at which a share is transacted is equal to a fund's stated daily per share net asset value ("NAV"), plus any shareholders fees (e.g., sales loads, purchase fees, redemption fees). The per share NAV of a mutual fund is calculated at the end of each business day, although the actual NAV fluctuates with intraday changes to the market value of the fund's holdings. The trading prices of a mutual fund's shares may differ significantly from the NAV during periods of market

volatility, which may, among other factors, lead to the mutual fund's shares trading at a premium or discount to actual NAV.

Shares of ETFs are listed on securities exchanges and transacted at negotiated prices in the secondary market. Generally, ETF shares trade at or near their most recent NAV, which is generally calculated at least once daily for indexed based ETFs and more frequently for actively managed ETFs. However, certain inefficiencies may cause the shares to trade at a premium or discount to their *pro rata* NAV. There is also no guarantee that an active secondary market for such shares will develop or continue to exist. Generally, an ETF only redeems shares when aggregated as creation units (usually 20,000 shares or more). Therefore, if a liquid secondary market ceases to exist for shares of a particular ETF, a shareholder may have no way to dispose of such shares.

### *Options*

Options allow investors to buy or sell a security at a contracted strike price (not necessarily the current market price) at or within a specific period of time. Clients may pay or collect a premium for buying or selling an option. Investors transact in options to either hedge against potential losses or to speculate on the performance of the underlying securities. Option transactions involve inherent risks, including the partial or total loss of principal in the event that the value of the underlying security or index does not increase or decrease to the level of the respective strike price. Holders of option contracts are also subject to default by the option writer which may be unwilling or unable to perform its contractual obligations.

### *Use of Private Collective Investment Vehicles*

M3 Asset Management recommends that certain clients invest in privately placed collective investment vehicles (e.g., hedge funds, private equity funds, etc.). The managers of these vehicles have broad discretion in selecting the investments. There are few limitations on the types of securities or other financial instruments which may be traded and no requirement to diversify. Hedge funds may trade on margin or otherwise leverage positions, thereby potentially increasing the risk to the vehicle. In addition, because the vehicles are not registered as investment companies, there is an absence of regulation. There are numerous other risks in investing in these securities. Clients should consult each fund's private placement memorandum and other offering documents explaining such risks prior to investing.

### *Use of Margin*

The market value of the client's account will be determined gross of margin and the corresponding fee payable by the client will be increased by the use of margin. As a result, in addition to understanding and assuming the additional principal risks associated with the use of margin, clients authorizing margin are advised of the potential conflict of interest whereby the client's decision to employ margin shall correspondingly increase the management fee payable to M3 Asset Management. Accordingly, the decision as to whether to employ margin is left totally to the discretion of client.

### *Use of Independent Managers*

M3 Asset Management may recommend the use of *Independent Managers*. In these situations, M3 Asset Management continues to do ongoing due diligence of such managers, but such recommendations rely to a great extent on the *Independent Managers'* ability to successfully implement their investment strategies. In addition, M3 Asset Management generally may not have the ability to supervise the *Independent Managers* on a day-to-day basis.

### **Voting of Client Securities**

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M3 Asset Management is required to disclose if it accepts authority to vote client securities. M3 Asset Management does not vote client securities on behalf of its clients. Clients receive proxies directly from the Financial Institutions.

## **Item 7. Client Information Provided to Portfolio Managers**

Clients participating in the Program generally grant M3 Asset Management the authority to discuss certain non-public information with the Independent Managers engaged to manage their accounts. Depending upon the specific arrangement, the Firm may be authorized to disclose various personal information including, without limitation: names, phone numbers, addresses, social security numbers, tax identification numbers and account numbers. M3 Asset Management may also share certain information related to its clients' financial positions and investment objectives in an effort to ensure that the Independent Managers' investment decisions remain aligned with its clients' best interests. This information is communicated on an initial and ongoing basis, or as otherwise necessary to the management of its clients' portfolios.

## **Item 8. Client Contact with Portfolio Managers**

There are no restrictions on clients' ability to correspond with M3 Asset Management's portfolio managers. Clients can generally contact any Independent Managers managing their assets through M3 Asset Management by providing the Firm with written request and identification of the questions or issues to be discussed with the Independent Managers. After receiving the client's written request, M3 Asset Management, at its sole discretion, may contact the Independent Managers for the client or arrange for the Independent Managers and the client to communicate directly.

## Item 9. Additional Information

### Disciplinary Information

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M3 Asset Management has not been involved in any legal or disciplinary events that are material to a client's evaluation of its advisory business or the integrity of management.

### Other Financial Industry Activities and Affiliations

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#### *Receipt of Brokerage Commission*

Certain of the Firm's Supervised Persons, in their individual capacities, may be registered representatives of a broker-dealer and in such cases may provide clients with securities brokerage services under a separate commission-based arrangement. A conflict of interest exists to the extent that M3 Asset Management recommends the purchase of a security and its Supervised Person receives a portion of the commissions paid to the broker-dealer. The Firm has procedures in place to ensure that all recommendations are made in the best interests of clients regardless of any additional compensation earned. For accounts covered by ERISA (and such others that M3 Asset Management, in its sole discretion, deems appropriate), the Firm provides investment advisory services on a fee offset basis. In this scenario, M3 Asset Management may offset its fees by an amount equal to the aggregate commissions and 12b-1 fees earned by the Firm's Supervised Persons in their capacities as registered representatives of a broker-dealer.

#### *Receipt of Insurance Commission*

Certain of M3 Asset Management's Supervised Persons, in their individual capacities, are also licensed insurance agents. When appropriate, these Supervised Persons, in their individual capacities, may recommend the purchase of certain insurance products to advisory clients on a fully-disclosed commission basis. A conflict of interest exists to the extent that M3 Asset Management recommends the purchase of insurance products where its Supervised Persons receive insurance commissions or other additional compensation. As a result M3 Asset Management has procedures in place to ensure that any recommendations made by such Supervised Persons are in the best interest of its clients.

### Code of Ethics

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M3 Asset Management and its associated persons are permitted to buy or sell securities that it also recommends to clients consistent with the Firm's policies and procedures.

M3 Asset Management has adopted a code of ethics that sets forth the standards of conduct expected of its associated persons and requires compliance with applicable securities laws (the "Code of Ethics"). In accordance with Section 204A of the Investment Advisers Act of 1940 (the "Advisers Act"), its Code of Ethics contains written policies reasonably designed to prevent the unlawful use of material non-public information by the Firm or any of its associated persons. The Code of Ethics also requires that certain of

M3 Asset Management's personnel (called "Access Persons") report their personal securities holdings and transactions and obtain pre-approval of certain investments such as initial public offerings and limited offerings.

Unless specifically permitted in M3 Asset Management's Code of Ethics, none of the Firm's Access Persons may effect for themselves or for their immediate family (i.e., spouse, minor children, and adults living in the same household as the Access Person) any transactions in a security which is being actively purchased or sold, or is being considered for purchase or sale, on behalf of any of M3 Asset Management's clients.

When M3 Asset Management is purchasing or considering for purchase any security on behalf of a client, no Access Person may effect a transaction in that security prior to the completion of the purchase or until a decision has been made not to purchase such security. Similarly, when the Firm is selling or considering the sale of any security on behalf of a client, no Access Person may effect a transaction in that security prior to the completion of the sale or until a decision has been made not to sell such security. These requirements are not applicable to: (i) direct obligations of the Government of the United States; (ii) money market instruments, bankers' acceptances, bank certificates of deposit, commercial paper, repurchase agreements and other high quality short-term debt instruments, including repurchase agreements; (iii) shares issued by mutual funds or money market funds; and (iv) shares issued by unit investment trusts that are invested exclusively in one or more mutual funds. Clients and prospective clients may contact M3 Asset Management to request a copy of its Code of Ethics.

### **Account Reviews**

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For those clients to whom M3 Asset Management provides investment management services, M3 Asset Management monitors those portfolios as part of an ongoing process while regular account reviews are conducted on at least a quarterly basis. Such reviews are conducted by one of M3 Asset Management's investment adviser representatives. All investment advisory clients are encouraged to discuss their needs, goals and objectives with M3 Asset Management and to keep M3 Asset Management informed of any changes thereto. The Firm contacts ongoing investment advisory clients at least annually to review its previous services and/or recommendations and to discuss the impact resulting from any changes in the client's financial situation and/or investment objectives.

### **Account Statements and General Reports**

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Clients are provided with transaction confirmation notices and regular summary account statements directly from the Financial Institutions where their assets are custodied. From time-to-time or as otherwise requested, clients may also receive written or electronic reports from M3 Asset Management and/or an outside service provider, which contain certain account and/or market-related information, such as an inventory of account holdings or account performance. Clients should compare the account

statements they receive from their custodian with those they receive from M3 Asset Management or an outside service provider.

### **Client Referrals**

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If a client is introduced to M3 Asset Management by either an unaffiliated or an affiliated solicitor, M3 Asset Management may pay that solicitor a referral fee in accordance with the requirements of Rule 206(4)-3 of the Advisers Act and any corresponding state securities law requirements. Any such referral fee is paid solely from M3 Asset Management's investment management fee and does not result in any additional charge to the client. If the client is introduced to M3 Asset Management by an unaffiliated solicitor, the solicitor provides the client with a copy of M3 Asset Management's written disclosure brochure which meets the requirements of Rule 204-3 of the Advisers Act and a copy of the solicitor's disclosure statement containing the terms and conditions of the solicitation arrangement including compensation. Any affiliated solicitor of M3 Asset Management discloses the nature of his/her relationship to prospective clients at the time of the solicitation and will provide all prospective clients with a copy of M3 Asset Management's written disclosure brochure at the time of the solicitation.

### **Receipt of Economic Benefit**

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M3 Asset Management may receive from Schwab, without cost to M3 Asset Management, computer software and related systems support, which allow M3 Asset Management to better monitor client accounts maintained at Schwab. M3 Asset Management may receive the software and related support without cost because M3 Asset Management renders investment management services to clients that maintain assets at Schwab. The software and support is not provided in connection with securities transactions of clients (i.e., not "soft dollars"). The software and related systems support may benefit M3 Asset Management, but not its clients directly. In fulfilling its duties to its clients, M3 Asset Management endeavors at all times to put the interests of its clients first. Clients should be aware, however, that M3 Asset Management's receipt of economic benefits from a Financial Institution creates a conflict of interest since these benefits may influence M3 Asset Management's choice of one Financial Institution over another that does not furnish similar software, systems support or services.

M3 Asset Management may also receive the following benefits from Schwab's institutional division: receipt of duplicate client confirmations and bundled duplicate statements; access to a trading desk that exclusively services institutional participants; access to block trading which provides the ability to aggregate securities transactions and then allocate the appropriate shares to client accounts; and access to an electronic communication network for client order entry and account information.

### **Financial Information**

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M3 Asset Management is not required to disclose any financial information pursuant to this Item due to the following:

## M3 Asset Management, Inc.

- The Firm does not require or solicit the prepayment of more than \$1,200 in fees six months or more in advance of services rendered;
- The Firm does not have a financial condition that is reasonably likely to impair its ability to meet contractual commitments to clients; and
- The Firm has not been the subject of a bankruptcy petition at any time during the past ten years.

## **M3 Asset Management, Inc.**

Prepared by:

