

Alerus Investment Advisors Corporation

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This Brochure provides information about the qualifications and business practices of Alerus Investment Advisors Corporation (Alerus Investment Advisors). If you have any questions about the contents of this Brochure, please contact us at 952-417-3836. The information in this Brochure has not been approved or verified by the United States Securities and Exchange Commission or by any state securities authority.

Additional information about Alerus Investment Advisors is also available on the SEC's website at www.adviserinfo.sec.gov.

Item 2 – Material Changes

Since the date of Alerus Investment Advisors' last annual Brochure update, March 7, 2014, Alerus Investment Advisors has made the following material changes to its business and service offerings:

- Effective in October, investment and benefits consulting to corporate clients with participant-driven programs historically offered by Alerus Investment Advisors is now offered by Alerus Retirement Services, a division of Alerus Financial, N.A.
- In conjunction with this change, Alerus Investment Advisors no longer has a position of custody based the common ownership and control between it and Alerus Retirement Services, and thus is no longer subject to an annual surprise exam by a qualified accountant to review these activities.
- On occasion, Alerus Investment Advisors may allow employees to attend industry investment conferences offered to the organization at no cost if it believes it can minimize any possible conflicts of interest while taking advantage of the learning opportunity.

Alerus Investment Advisors will provide the client with a new Brochure as necessary based on changes or new information, at any time, without charge. Currently, our Brochure may be requested by contacting Briana Greninger at briana.greninger@alerus.com or 952-417-3836. Additional information about Alerus Investment Advisors is also available via the SEC's web site www.adviserinfo.sec.gov.

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Item 4 – Advisory Business

Alerus Investment Advisors is a wholly-owned subsidiary of Alerus Financial N.A., a \$12 billion dollar financial services provider based in Grand Forks, ND (bank assets plus assets under management and administration). Alerus Financial, N.A. offices are also located in Fargo, ND, the Minneapolis, MN metropolitan area, Phoenix, AZ and East Lansing, MI.

Alerus Investment Advisors provides advisory services through traditional investment consulting services to affluent individuals, family offices, foundations and endowments, banks and trust companies, as well as other corporate entities such as pension and employee stock ownership plans.

Alerus Investment Advisors offers discretionary investment management of separately managed account portfolios and common and collective funds. Our experience and proficiency combine to optimize risk with appropriate asset allocation to meet the client's unique investment objectives. Alerus Investment Advisors also provides selection of individual securities that may include equities, preferred stocks, convertible bonds, corporate debt securities, U.S. Government securities, municipal securities, commercial paper, certificates of deposit, mutual funds and exchange-traded funds. Implementation of asset management recommendations is provided through an independent custodian and trading platform.

Alerus Investment Advisors can also bring an understanding of the fiduciary requirements and risk management associated with pension and employee stock ownership plans. As a co-fiduciary, our experience and expertise combine to manage and minimize risk, while increasing the efficiency and performance of our clients' pension and employee stock ownership plans by providing the following co-fiduciary services:

- Development of an Investment Policy Statement for the pension or employee stock ownership plan, providing guidelines for the management and investment of Plan assets for the benefit of Plan beneficiaries.
- Periodic review of the Investment Policy Statement to determine whether there

have been material changes to the goals and objectives or the risk return profile of the Plan. (The Plan Sponsor is responsible for adoption and amendment of the Investment Policy Statement.)

- Recommendations to the Plan Sponsor of investment options.
- Preparation and delivery of a quarterly monitoring report to assist in the ongoing monitoring of the investments in the Plan and continued compliance with the Investment Policy Statement of the Plan.

Discretionary Investment Manager Services. In addition to the Co-Fiduciary services offered, Alerus Investment Advisors also offers an advanced level of investment and advisory support as a designated Investment Manager. Contracted as the appointed Investment Manager for a Plan, as defined by ERISA section 3(38), Alerus Investment Advisors may be engaged to fulfill the responsibilities of investment selection and ongoing investment monitoring, including investment replacement as necessary in the execution of this responsibility. Alerus Investment Advisors acts as an independent fiduciary, relieving the Plan Sponsor of the responsibility to select and monitor the Plan's investment options.

Key elements of Discretionary Investment Manager Services include:

- Contractual acceptance of fiduciary responsibilities
- Full discretionary responsibility for the ongoing investment management of the investment options for the Plan, which include investment asset allocation for the plan of individual securities and/or leveraging outside manager searches, evaluations and monitoring, and decisions regarding the retention of investment options.

REPORTING ASSETS UNDER MANAGEMENT

Alerus Investment Advisors currently provides Asset Management Services to Alerus Financial, N.A. and 125 other direct client relationships. As of December 31, 2014, discretionary assets under management are \$1,751,010,000 and non-discretionary assets under management are \$23,830,000.

Item 5 – Fees and Compensation

As full compensation for its services, Alerus Investment Advisors receives a negotiated fee, which may be based on a percentage of assets under advisory management, an hourly rate or a fixed fee. The specific manner in which fees are charged by Alerus Investment Advisors is established in a client's written agreement with Alerus Investment Advisors. Generally, fees are billed on a quarterly basis to be billed in arrears or in advance each calendar quarter, as specified by agreement. Fees may be revised upon 90 days advance written notice. Accounts initiated or terminated during a calendar quarter will be charged a prorated fee. Upon termination of any account, any earned, unpaid fees will be due and payable.

Alerus Investment Advisors' fees are generally exclusive of brokerage commissions, transaction fees, and other related costs and expenses which shall be incurred by the client, unless stipulated by agreement. Clients may incur certain charges imposed by custodians, brokers, third party investments and other third parties such as fees charged by managers, custodial fees, 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. Mutual funds and exchange traded funds also charge internal management fees, which are disclosed in a fund's prospectus. Such charges, fees and commissions are exclusive of and in addition to Alerus Investment Advisors' fee, and Alerus Investment Advisors would not receive any portion of these commissions, fees, and costs unless contractually allowed to do so to offset advisory fees.

Private Money Managers charge fees for consulting and administrative services, as do the underlying individual money managers. These fees, which are calculated as a percentage of assets under management and vary by money manager, are in addition to the fees charged by Alerus Investment Advisors and will be fully disclosed prior to the client signing a Private Money Manager's agreement. Clients should review the Private Manager's Form ADV, Part 2A for a full description of all fees. The clearing firm that holds the accounts may charge transaction fees to the client to buy or sell funds. These fees are not shared with Alerus Investment Advisors nor do we receive a sales commission on transactions executed

by the Private Manager's clearing firm. Transactions costs and/or ticket charges generated from the Private Money Manager's trading will be the responsibility of the client.

Item 6 – Performance-Based Fees and Side-By-Side Management

Alerus Investment Advisors does not charge any performance-based fees (fees based on a share of capital gains on or capital appreciation of the assets of a client) or side-by-side management fees (where competing fee arrangements may create a conflict in the advisory services offered to clients).

Item 7 – Types of Clients

Alerus Investment Advisors provides asset management services to affluent individuals with investment assets ranging from \$1 to \$20 million, family offices, foundations and endowments, banks and trust companies, as well as other corporate entities such as pension and employee stock ownership plans.

Item 8 – Methods of Analysis, Investment Strategies and Risk of Loss

Alerus Investment Advisors provides the client with insight into investment principles and practices that are invaluable, especially in volatile markets when performance can fluctuate dramatically. Alerus Investment Advisors' investment discipline is an analytical approach that emphasizes broad diversification. With a combination of sophisticated technology and in-depth research, Alerus Investment Advisors' investment team searches the universe of individual securities and bonds, as well as available managers or mutual funds, considering areas such as:

- Overall returns, return consistency, expected returns and risk-adjusted returns
- Company fundamentals and valuations, including size, strength and history
- Peer group comparisons and manager history, including investment objectives, philosophy, guidelines and expense ratios.

Portfolio construction considers sectors relative to benchmarks and industries, and risk relative to benchmarks. Asset allocation of client portfolios subsequently considers those factors unique to the client, such as their investment objectives and tolerance for risk.

Investing in securities involves risk of loss that clients must understand and be prepared to bear. Specific risk considerations include:

Market Risk

The market values of securities owned may decline, at times sharply and unpredictably. Market values of equity securities are affected by a number of different factors, including the historical and prospective earnings of the issuer, the value of its assets, management decisions, and decreased demand of an issuer's products or services, increased production costs, general economic conditions, interest rates, currency exchange rates, investor perceptions and market liquidity.

Economic Risk

Changes in economic conditions, for example, interest rates, inflation rates, political and diplomatic events and trends, tax laws and innumerable other factors, can substantially and adversely affect investments.

Asset Allocation Risk

Asset allocation may have a more significant effect on account value when one of the heavily weighted asset classes is performing more poorly than the others. Diversification and strategic asset allocation do not assure profit or protect against loss in declining markets.

Concentrated Portfolio Risk

To the extent a portfolio has a large portion in a single security or several securities it bears more risk because it is not diversified. Changes in the value of significantly over-weighted security positions may have a much more substantial directional effect, either negative or positive, on the portfolio's performance.

Emerging Foreign Market Risk

Investment in the securities of foreign issuers may experience more rapid and extreme changes in value than funds with investments solely in securities of U.S. companies. The securities markets of many foreign countries are relatively small, with limited number of companies representing a small number of industries. Additionally, foreign securities issuers may not be subject to the same degree of regulation as U.S. issuers. Reporting, accounting, and auditing standards of foreign countries differ, in some cases significantly, from U.S. standards. Also, nationalization, expropriation or confiscatory taxation, currency blockage, political change or diplomatic developments could adversely affect investments in a foreign country.

Fixed Income Risk

Including: interest rate risk, which is the chance that bond prices overall will decline because of rising interest rates; income risk, which is the chance that a strategy's income will decline because of falling interest rates; credit risk, which is the chance that a bond issuer will fail to pay interest and principal in a timely manner, or that negative perceptions of the issuer's ability to make such payments will cause the price of the bond to decline; and call risk, which is the chance that during periods of falling interest rates, issuers of callable bonds may call (repay) securities with higher coupons or interest rates before their maturity dates. The investment would then lose any price appreciation above the bond's call price and would be forced to reinvest the unanticipated proceeds at lower interest rates, resulting in a decline in the investment's income.

Item 9 – Disciplinary Information

Registered investment advisers are required to disclose all material facts regarding any legal or disciplinary events that would be material to the client's evaluation of Alerus Investment Advisors or the integrity of Alerus Investment Advisors' management. Alerus Investment Advisors has no information applicable to this Item.

Item 10 – Other Financial Industry Activities and Affiliations

Broker-Dealers. Alerus Investment Advisors' affiliate Alerus Securities Corporation is a registered broker dealer, member FINRA and SIPC. Alerus Investment Advisors' employees may effect securities transactions for compensation for clients that elect to establish individual brokerage accounts with Alerus Securities Corporation. In some situations, a brokerage relationship may be preferable or compliment an advisory relationship, depending on specific client needs. All brokerage activities of Alerus Securities are separate and distinct from the client activities of Alerus Investment Advisors. Clients should note that they are under no obligation to establish accounts or purchase securities through Alerus Securities Corporation, and that transaction charges may be higher or lower than the charges the client may pay if the transactions were executed at other broker dealers.

Banking or Thrift Institution. Alerus Financial, N.A. is the sole shareholder of Alerus Investment Advisors and is a provider of personal, business and agribusiness banking services with office locations in North Dakota, Minnesota and Arizona. A principal executive officer of Alerus Investment Advisors is also an executive officer of Alerus Financial, N.A., however this individual does not determine the investment advice to be given to clients. Other individuals may also act in dual roles representing bank, as well as advisory, products and services. This dual role is supervised carefully so that it does not create a conflict of interest or create a disadvantage for our clients if the employees are compensated under a bonus structure that may incent them to give preference to one role, product or service over another. In the event that a conflict due to our bonus structure is noted, the issue would be discussed with the client on a case-by-case basis. Clients should note that they are under no obligation to establish accounts or relationships with Alerus affiliate entities and that charges or fees may be higher or lower if an account or relationship would be established elsewhere. Referral bonus payments do not impact client fees or service levels. Alerus Investment Advisors and Alerus Financial, N.A. believe that dual employee roles provide clients with the most cost-effective products and services to meet specific financial needs.

Insurance Company or Agency. Alerus Financial Insurance Services Corporation is an affiliate of Alerus Investment Advisors. All insurance activities of Alerus Financial Insurance Services are separate and distinct from the client activities of Alerus Investment Advisors.

Item 11 – Code of Ethics, Participation or Interest in Client Transaction and Personal Trading

Alerus Investment Advisors has adopted a Code of Ethics for all supervised persons of the firm describing its high standard of business conduct, and fiduciary duty to its clients. The Code of Ethics includes provisions relating to the confidentiality of client information, a prohibition on insider trading, a prohibition of rumor mongering, restrictions on the acceptance of significant gifts and the reporting of certain gifts and business entertainment items, and personal securities trading procedures, among other things. All supervised persons at Alerus Investment Advisors must acknowledge the terms of the Code of Ethics annually, or as amended.

Alerus Investment Advisors anticipates that, in appropriate circumstances, it will cause accounts over which Alerus Investment Advisors has management authority to effect, and will recommend to investment advisory clients or prospective clients, the purchase or sale of securities in which Alerus Investment Advisors, its affiliates and/or clients, directly or indirectly, have a position of interest. Alerus Investment Advisors' employees and persons associated with Alerus Investment Advisors are required to follow Alerus Investment Advisors' Code of Ethics. Subject to satisfying this policy and applicable laws, officers, directors and employees of Alerus Investment Advisors and its affiliates may trade for their own accounts in securities which are recommended to Alerus Investment Advisors' clients. The Code of Ethics is designed to assure that the personal securities transactions, activities and interests of advisory employees will not interfere with (i) making decisions in the best interest of advisory clients and (ii) implementing such decisions while, at the same time, allowing employees to invest for their own accounts. Under the Code certain classes of securities have been designated as exempt transactions, based upon a determination that

these would materially not interfere with the best interests of clients. Nonetheless, because the Code of Ethics in some circumstances would permit employees to invest in the same securities as clients, there is a possibility that employees might benefit from market activity by a client in a security held by an employee. Employee trading is continually monitored under the Code of Ethics, and to reasonably prevent conflicts of interest between Alerus Investment Advisors and its clients.

Clients or prospective clients may request a copy of the firm's Code of Ethics by contacting Briana Greninger at 952-417-3836 or briana.greninger@aleruscom.

Item 12 – Brokerage Practices

Investment assets must be maintained in an account at a “qualified custodian,” generally a broker-dealer or bank. Alerus Investment Advisors may suggest that clients establish brokerage accounts with Pershing Advisor Solutions, LLC (Pershing), a registered broker dealer, member SIPC and a subsidiary of The Bank of New York Mellon Corporation. This custodian maintains custody of investment assets and effects trades for discretionary accounts, holding client assets in unique client brokerage accounts and buying and selling securities when instructed. Although Alerus Investment Advisors may recommend that clients establish accounts at Pershing, it is each client’s responsibility to decide on a custodian and enter into an account relationship directly with a provider. Using a custodian other than Pershing may result in the loss of possible advantages derived from bunching orders for several clients as a single transaction or more attractive share classes at lower minimums.

Alerus Investment Advisors seeks to recommend a custodian/broker that will hold client assets and execute transactions on terms that are, overall, most advantageous when compared to other available providers and their services. Alerus Investment Advisors will always consider a wide range of factors, including, among others:

- Capability to execute, clear, and settle trades
- Reputation, financial strength, and stability

- Quality of services
- Competitiveness of the price of those services (commission rates, margin interest rates, other fees, etc.) and willingness to negotiate the prices

Asset Management Services provided to Alerus Financial, N.A. and as such, their trading and custodial services, are provided through Northern Trust and other brokerage companies, at the direction of Alerus Financial, N.A.

Soft Dollars. Alerus Financial, N.A., Alerus Investment Advisors and their affiliates endeavor to act in their clients' best interests and any accepted products and services are supervised to consistently identify outside services that may create any potential conflicts of interest.

Currently, trust services provided through Alerus Financial, N.A. receive "soft dollars" that are directed to market research resources for placing trades through Bank of New York. With this, Alerus Financial, N.A. receives equity, economic and other financial market research and commentary from Northern Trust based on that existing custodial relationship. This market research is made available to Alerus Investment Advisors to assist in the Asset Management Services it contractually provides to its affiliate. In turn, these benefits are not limited to use with only Alerus Financial, N.A. It is understood that this benefit and others that may become available, may not be proportionally allocated only to account relationships that generate soft dollar benefits or no soft dollar benefits.

Alerus Investment Advisors also receives soft dollars from equity trades directed through Pershing. These soft dollars can be used to offset the overall costs of business products and services available to Alerus Investment Advisors through Pershing. Alerus Investment Advisors will continue to monitor Pershing's best execution statistics to confirm that soft dollar benefits do not outweigh the executions obtained on behalf of our clients with accounts maintained with Pershing.

On occasion, various financial providers may offer conference attendance, which may include airfare and hotel costs. While these educational benefits provide valuable up-to-date

investment and industry information, only employees that are not directly involved in manager selection would be allowed to participate to minimize any conflicts of interest. All employee attendance requests are pre-approved by management prior to participation.

Investment or Brokerage Discretion. Alerus Investment Advisors may assist clients in the selection process for various vendor relationships, including trust and brokerage services. Alerus Investment Advisors and its affiliates may suggest a specific provider based on the services required by its direct asset management accounts. Alerus Investment Advisors may or may not have discretionary authority as a fiduciary to determine the securities to be bought or sold, the amount of the securities, the broker dealer to be used and the commission rates paid. Alerus Investment Advisors would only operate with discretion according to the agreement with each client.

As well, trust services provided through Alerus Financial, N.A. encompass all typical trust powers, which include authority to determine the securities to be bought or sold, the amount of the securities to be bought or sold, the broker or dealer to be used and the commission rates paid as a trust provider.

Item 13 – Review of Accounts

REVIEWS FOR ASSET MANAGEMENT SERVICES

Alerus Investment Advisors provides periodic reviews to direct clients, and to Alerus Financial, N.A., which may include supporting Alerus Financial's in-person client meetings to discuss investment performance, economic indicators, account transactions and account investment strategy.

REVIEWS FOR PENSION & EMPLOYEE STOCK OWNERSHIP PLAN ADVISORY SERVICES

Alerus Investment Advisors provides periodic plan reports based on standards outlined in the Investment Policy Statement developed for the Plan client. These reports, along with economic and financial market commentary and information regarding the management of

the Plan, are distributed to the Plan Sponsors who will provide them to their Retirement Plan Committee members.

Item 14 – Client Referrals and Other Compensation

Alerus Investment Advisors may compensate employees of affiliates for a client referral. The fee paid to Alerus Investment Advisors by the client who is referred through any referral arrangement is the same as a client who is not referred. If a client is obtained through a referral, a written disclosure of the compensation arrangements between the Alerus affiliates will be provided to the client. In the event that a conflict due to our bonus structure is noted, the conflict would be discussed with the client on a case-by-case basis. Clients should note that they are under no obligation to establish accounts or relationships with Alerus Investment Advisors or our affiliate entities, and that charges or fees may be higher or lower if an account or relationship would be established elsewhere. Alerus Investment Advisors and Alerus Financial, N.A. believe that dual employee roles provide clients with the most cost-effective products and services to meet specific financial needs.

Item 15 – Custody

Custody is a term used to describe the role of the entity that maintains and reports on investment assets held in separate client accounts. These services are typically provided by brokerage firms or banks. The role of a qualified custodian is highly specialized, independently protecting each client's assets in a role that compliments the responsibilities of an advisory firm like Alerus Investment Advisors.

Clients receive at least quarterly statements from the broker dealer, bank or other qualified custodian that holds and maintains each specific client's investment assets. Alerus Investment Advisors urges the client to carefully review such statements and compare official custodial records to the account performance reports that we provide to the client. Alerus Investment Advisors' reporting may vary from custodial statements based on accounting procedures, reporting dates, or valuation methodologies of certain securities.

Item 16 – Investment Discretion

Alerus Investment Advisors contractually receives discretionary authority. With discretionary authority, Alerus Investment Advisors will have authorization to execute investment decisions without prior approval from the client and/or Plan. It is critical that investment guidelines and restrictions be provided in writing to Alerus Investment Advisors at the outset of the advisory relationship, and whenever there are updates or changes. Private Money Managers operate with trading discretion as well.

Item 17 – Voting Client Securities

Alerus Investment Advisors empowers each client with full rights and authority to vote on proxy matters associated with their assets, unless contractually authorized to vote proxies on the client's behalf. Proxy materials are sent directly to clients and clients are free to vote on proxy issues, as appropriate. In this manner clients are allowed to vote differently on the same proxy issues.

If proxies are voted for the client, an individual proxy voting policy has been established for execution by Alerus Investment Advisors. At this time, Alerus Investment Advisors votes proxies on behalf of its affiliate, Alerus Financial, N.A. Clients may obtain a copy of our proxy policy, as well as information about how their securities were voted by contacting Briana Greninger at 952-417-3836 or briana.greninger@aleruscom.

For those with assets through a Private Money Manager, client proxies are directed to the underlying money management firm. The Private Money Manager maintains the authorization to vote proxies issued on the client's behalf.

Item 18 – Financial Information

Registered investment advisers are required in this Item to provide the client with certain financial information or disclosures about their respective firm's financial condition. Alerus Investment Advisors has no financial commitment that impairs its ability to meet

contractual and fiduciary commitments to clients, and has not been the subject of a bankruptcy proceeding.