

**Item 1 – Cover Page**



# Fan Asset Management

**900 Lafayette Street, Suite 610  
Santa Clara, CA 95050  
1.408.748.1562**

<http://www.fanasset.com>

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This brochure provides information about the qualifications and business practices of Fan Asset Management. If you have any questions about the contents of this brochure, please contact us at 1.408.748.2562 and/or [info@fanasset.com](mailto:info@fanasset.com).

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. Fan Asset Management is a registered investment advisor. The registration of an investment advisor does not imply any level of skill or training.

The oral and written communications of an advisor provides information with which you determine to hire or retain an advisor.

Fan Asset Management was founded in 1996. Additional information about Fan Asset Management is also available on the SEC's website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).

## Part 2A of Form ADV: Fan Asset Management Brochure

### Item 2 – Material Changes

This Brochure dated 03/02/2017 was prepared according to the SEC's requirements and rules.

Compared with the previous Brochure dated 02/25/2016, there is one material change which updates Fan Asset Management's AUM as of 12/31/2016.

Pursuant to new SEC rules, we will ensure that you receive a summary of any material changes to this and subsequent brochures within 120 days of the close of the firm's fiscal year. We may further provide other ongoing disclosure information about material changes as necessary.

Currently, this brochure may be requested at 1.408.748.1562 or [info@fanasset.com](mailto:info@fanasset.com). This brochure is also available on Fan Asset Management's website, [www.fanasset.com](http://www.fanasset.com).

Additional information about Fan Asset Management is also available via the SEC's website [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov). The SEC's website also provides information about any persons affiliated with Fan Asset Management who are registered, or are required to be registered, as investment advisor representatives of Fan Asset Management. We will provide you with a new brochure as necessary based on changes or new information, at any time, without charge.

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**The two supplements shown below are not applicable to Fan Asset Management. Therefore, Fan Asset Management is not required to include these supplements in this brochure.**

- **Part 2A, Appendix 1: The “Wrap Brochure”** - Fan Asset Management does not sponsor a wrap fee program. Therefore, **Part 2A, Appendix 1** is not applicable to Fan Asset Management.

- **Part 2B: The “Supplement”** – Fan Asset Management has no supervised persons. Therefore a biographical and disciplinary information page, which is **Part 2B: The “Supplement”** is not applicable to Fan Asset Management.

#### **Item 4 – Advisory Business**

Fan Asset Management has been a registered investment advisor (the registration of an investment advisor does not imply any level of skill or training) and has provided investment advisory service to individuals and institutional investors since 1996. The principal owner of Fan Asset Management is Dr. Stephen Fan, who currently owns 100% of the firm.

Fan Asset Management's investment products include relative return strategies and absolute return strategies. A relative return strategy offers investment products that are designed to outperform certain pre-assigned market index benchmarks such as S&P 500 index, etc. An absolute return product, on the other hand, offers investment products that try to produce maximum non-negative investment returns by balancing between maximizing investment return and hedging downside risk of investments.

In addition to discretionary investment product offerings, Fan Asset Management also offers non-discretionary advisory services to institutional advisors such as pension funds' internal investment strategies.

Note that all investment products carry uncertainty risk in achieving their investment objectives; past performance does not guarantee future performance.

Fan Asset Management will tailor its advisory services to the specific needs of clients. Clients may impose restrictions on investing in certain securities or types of securities.

As of 12/31/2015, Fan Asset Management managed approximately \$500 million non-discretionary assets for clients.

#### **Item 5 – Fees and Compensation**

All fees are subject to negotiation. The factors considered are the size of the account, the type of assets, and the manner in which assets are managed. The specific terms in which fees are charged is established in each client's written agreement with Fan Asset Management.

Unless otherwise stated in a client's written agreement, Fan Asset Management usually bills its fees quarterly in arrears of each calendar quarter of service. 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.

Fan Asset Management may elect to deduct fees from clients' assets or bill clients for fees. Depending on investment products, clients may have options to select either method.

Fan Asset Management's fees are exclusive of brokerage commissions, transaction fees, and any other related costs and expenses which shall be incurred by the client such as charges imposed by custodians, brokers, or third party investment products (e.g. mutual funds and exchange traded funds charge internal management fees as disclosed in their prospectus.)

Fan Asset Management is a fee-based investment advisor and will not receive any portion of third party commissions, fees, and costs.

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Note that clients have options to purchase investment products that Fan Asset Management offers from other investment advisors or brokers that are not affiliated with Fan Asset Management.

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

Fan Asset Management offers both performance-based fee schedules – that is, fees based on a share of capital gains on or capital appreciation of the assets of a client – and asset-based fixed fee schedules. Despite different fee structures, Fan Asset Management has instituted trading procedures, which are available upon request, to make sure that all accounts of the same product are treated equally. For instance, trade allocation will be in proportion of account sizes and the same average trading price will be booked across all accounts.

### **Item 7 – Types of Clients**

Fan Asset Management offers its investment advisory services to individuals and institutions such as trusts, estates, charitable organizations, banks or thrift institutions, corporations or other business entities, and pension and profit sharing plans. Fan Asset Management reserves the right to impose a minimum account size in its investment products.

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

Fan Asset Management's investment philosophy is based on Dr. Fan's academic theory -- General Capital Asset Pricing Models (GCAPM), which shows that if an asset's earnings expectation increases and/or its risk premium decreases, higher asset prices will follow. Investors' perceptions of asset expected returns and risk premiums change over time and are driven by a combination of changes in a capital market's macro environment and an individual asset's fundamentals. Based on GCAPM's investment principles, Fan Asset Management continuously develops and maintains a set of proprietary quantitative investment models to capture changes in the capital markets' macroeconomic environments and individual assets' fundamentals. Using these models, Fan Asset Management constructs client investment portfolios according to their investment objectives and mandates.

The GCAPM white papers are available and downloadable through Fan Asset Management's website [www.fanasset.com](http://www.fanasset.com).

For relative return strategies, the investment risk is controlled at three levels. At the individual security level, individual securities' relative over and under weights are capped at a pre-determined policy level. Similarly, at the economic sector and industry level, the relative over and under weights are capped at a pre-determined policy level. At the portfolio level, the total portfolio risks are further analyzed and controlled by proprietary quantitative risk forecast models.

For absolute return strategies, the downside risks are also managed at three levels. At the individual security level, the downside risk is monitored and managed by Fan Asset Management's proprietary individual security downside risk models. At the sector and industry level, the downside risk is monitored and managed by Fan Asset Management's proprietary top-down market and sector analysis models. At the

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overall portfolio level, Fan Asset Management devised an optimal mix of long security positions, cash, and option positions to maximize the upside of investment returns while minimizing the possibility of any prolonged negative investment returns.

Note that all investment models, risk forecast models, and market/sector analysis models may not capture the actual market phenomenon correctly all the time. Investing in any securities involves risk of loss; clients should be prepared to bear unexpected investment losses.

### Item 9 – Disciplinary Information

Fan Asset Management has no legal or disciplinary events that are material to a client's or prospective client's evaluation of its advisory business or the integrity of its management.

### Item 10 – Other Financial Industry Activities and Affiliations

Fan Asset Management and its managed persons have no other financial industry activities and affiliations that represent conflicts of interests with clients to report of.

### Item 11 – Code of Ethics

In pursuant to SEC rule 204A-1, Fan Asset Management has adopted its Code of Ethics after the AIMR Code of Ethics and it can be summarized as follows:

## The Code of Ethics

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Members of the Association for Investment Management and Research shall:

1. Act with integrity, competence, dignity, and in an ethical manner when dealing with the public, clients, prospects, employers, employees, and fellow members.
2. Practice and encourage others to practice in a professional and ethical manner that will reflect credit on members and their profession.
3. Strive to maintain and improve their competence and the competence of others in the profession.
4. Use reasonable care and exercise independent professional judgment.

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In addition, Fan Asset Management has an established Personal Trading Policy and Guidelines, which could be changed from time to time, to monitor personal transactions in the spirit of AIMR's Code of Ethics and Standards of Professional Conduct, and to avoid situations which have the

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potential for either compromising our fiduciary relationship with our clients and/or damaging our clients' portfolios.

Fan Asset Management will provide a copy of its Code of Ethics and related Policies and Guidelines to any clients or prospective clients upon request.

In principle, Fan Asset Management and its related persons are not allowed to recommend to clients, or buy or sell for client accounts, securities in which Fan Asset Management or its related persons has a material financial interest in. However, in cases when such securities are deemed to be in the clients' best interest to invest in, the securities must be reviewed by the firm's compliance department and full disclosure of potential conflicts of interests to clients is required. Trades with insider information are strictly prohibited. Violators are subject to immediate dismissal of employment from Fan Asset Management.

While Fan Asset Management and its related persons may purchase or sell specific securities for their own accounts based on personal investment considerations, they have to report all personal securities transactions to Fan Asset Management for review quarterly. In general, unless approved by Fan Asset Management's compliance officer(s), the same security is not allowed to trade in any personal account within twenty-four hours of clients' trades. Employees who violate the internal Personal Trade Policy and Guidelines will be disciplined and dismissed from employment if a serious violation is found.

### Item 12 – Brokerage Practices

Following the recommendations of the Association for Investment Management and Research (AIMR), Fan Asset Management has established its Broker Evaluation Policy, under which, brokers will be selected according to the following six criteria:

1. the Broker's ability to minimize total trading costs while maintaining its financial health
2. the Broker's level of trading expertise
3. the Broker's infrastructure
4. the Broker's ability to provide information or services (if applicable) to improve trade decisions
5. the Broker's ability to provide services to accommodate special transaction needs
6. the Broker's financial condition

Fan Asset Management currently does not use soft dollar trades, use brokers for Client Referrals, nor recommend directed brokerage trades for clients. However, Fan Asset Management does permit a client to direct trades through its own directed brokerage programs.

If feasible, Fan Asset Management will aggregate the purchase or sale of securities for various client accounts to trade with one broker to attain the same average trade price for all clients.

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### **Item 13 – Review of Accounts**

Clients' accounts are reviewed internally at Fan Asset Management on a daily basis. If applicable, portfolio profile, performance, and performance attribution reports are generated on a monthly basis or at the frequency specified in the client contract, for client review. Fan Asset Management also issues its market outlook and economic analysis periodically via email to clients.

### **Item 14 – Client Referrals and Other Compensation**

Fan Asset Management currently does not pay any third-party marketer for referrals in any shape, way, or form.

### **Item 15 – Custody**

Fan Asset Management does not have custody of clients' assets. However, Fan Asset Management does keep an independent book of accounting of clients' assets and reconciles its book with clients' custodian bank statements on a monthly basis.

### **Item 16 – Investment Discretion**

Fan Asset Management offers both discretionary and non-discretionary investment advisory services. For discretionary advisory service, the discretion is to be exercised in a manner consistent with the investment objectives, policies, guidelines, limitations, and restrictions as specified in each written client contract.

### **Item 17 – Voting Client Securities**

If applicable, clients may elect to retain the authority of proxy voting for securities in their portfolios. If authorized by the client, Fan Asset Management will vote proxies for clients according to its written Proxy Voting Policy, which is available upon client request.

### **Item 18 – Financial Information**

Fan Asset Management receives its advisory fees in arrears of quarterly service. Currently, there are no financial commitments that impairs its ability to meet contractual and fiduciary commitments to clients, and has not been the subject of a bankruptcy proceeding.



**Item 19 – Requirements for State-Registered Advisors**

Fan Asset Management is an SEC registered investment advisor.