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## AZA Capital Management

### Form ADV Part 2A

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#### ITEM 1 – COVER PAGE

January 31, 2017

This Brochure provides information about the qualifications and business practices of AZA Capital Management. If you have any questions about the contents of this Brochure, please contact us by phone at (312) 429-0880 or by email at [inquire@azacapital.com](mailto:inquire@azacapital.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.

AZA Capital Management is a registered investment adviser. Registration of an investment adviser does not imply any level of skill or training. The oral and written communications of an Adviser provide you with information about which you determine to hire or retain an Adviser.

Additional information about AZA Capital Management is available on the SEC's website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).

#### Main Office

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Phone: 312-429-0880

#### Website

[www.azacapital.com](http://www.azacapital.com)

## ITEM 2 – MATERIAL CHANGES

This Item discusses only specific material changes that are made to the Brochure and provides clients with a summary of changes since the last annual update filed March 1, 2016.

On July 21, 2016 there was a change in ownership of our firm. Joseph Nathan exercised warrants to purchase shares representing 65% of the ownership. Mr. Nathan then transferred these shares to Jeffrey Keen, Michael LaFontaine, Christopher Recker and Dan Danzig.

Jeffrey Keen replaced Dan Danzig as the firm's Chief Compliance Officer effective January 1, 2017. Previously, Mr. Danzig replaced Arthur Zaske as the firm's Chief Compliance Officer on July 22, 2016 after Mr. Zaske resigned from the firm on July 21, 2016.

Item 10 has been updated. AZA Capital Management is no longer the manager of AZA Pooled Real Estate, LLC.

Currently, our Brochure may be requested without charge by contacting us by phone at 312-429-0880 or by email at [inquire@azacapital.com](mailto:inquire@azacapital.com).

Additional information about AZA Capital 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 AZA Capital Management who are registered, or are required to be registered, as investment adviser representatives of AZA Capital Management.

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**ITEM 4 – ADVISORY BUSINESS**

- A. *Company Description and Ownership.* AZA Capital Management (“AZA” and/or “Adviser”) was formed in 1997 and operates as a Michigan domiciled Corporation. AZA is entirely owned by its current and former employees. Christopher Recker, the Chief Investment Officer, is the only employee that owns more than 25% of the outstanding common stock of the firm. In addition, former employee, Arthur Zaske, owns more than 25% of the outstanding common stock of the firm.
- B. *Services Offered.* AZA Capital Management is an independent, federally registered investment adviser that provides asset management and investment consulting services. Our team focuses on providing innovative and objective portfolio management and consulting to high net-worth individuals and families, institutions, endowments, trusts, and other investment advisory firms. Services provided include, but are not limited to, the following:
- Discretionary asset management
  - Asset allocation consulting
  - Client-specific investment planning
  - Investment monitoring and consolidated reporting

AZA may recommend investment strategies available through unaffiliated third party investment managers (sub-advisors) in an effort to help our clients meet their investment objectives. Clients will grant us limited discretionary authority to select a sub-advisor to manage the client account in accordance with the investment policy statement. If a sub-advisor is appointed by AZA to manage a portion of the portfolio assets, the sub-advisor will also manage the portfolio assets in accordance with the client’s investment policy statement. If our services include the use of outside managers or strategies, Client(s) will not have a direct contractual relationship with the sub-advisor. AZA retains the right to replace the sub-advisor on a discretionary basis.

- C. *Customization and Restrictions.* Clients may utilize Adviser for one or more services. Clients typically utilize Adviser as an asset manager, investment consultant, or a combination of both. A variety of services and/or investment strategies may be combined and customized to meet the specific needs of a client. Adviser will usually accept reasonable client restrictions with respect to securities held in client accounts. Some investment strategies are more accommodating of restrictions than others. Additional client restrictions regarding the use of margin, security types, and/or other account features are generally accommodated by Adviser.
- D. *Wrap Fee Programs.* AZA may act as a sub-advisor to other advisors in wrap fee programs. In such instances, the primary advisor is solely responsible for maintaining client relationships and communicating necessary client information to AZA. Adviser generally does not manage wrap fee accounts differently from other accounts with similar investment objectives. Adviser receives a portion of the wrap fee for investment advisory services. Management fees are disclosed in writing and executed by the client.

E. *Assets Under Management.*

As of December 31, 2016:

Total Assets Under Management:	\$ 190,900,000
Discretionary Basis:	\$ 189,400,000
Non-Discretionary Basis:	\$ 1,500,000

**ITEM 5 – FEES AND COMPENSATION**

- A. *Advisory Fees.* All fees are subject to negotiation. It is anticipated that such situations may occur with larger, more complex accounts and relationships. Typically, annual management fees range from 0.20% to 1.50% of the portfolio value depending on the services rendered. In certain circumstances, a fixed fee approximating the percentage fee may be negotiated for the following year.
- B. *Payment of Fees.* Fees for discretionary investment management services are payable quarterly in advance. In most instances, AZA requires fees to be directly debited from an investment account as opposed to being invoiced. Fees for investment consulting generally are invoiced as services are provided.
- C. *Other Fees.* Mutual funds, ETF's, ETN's and other investments we may use typically charge their shareholders various advisory fees and expenses associated with the establishment and operation of the funds. These fees will generally include a management fee, shareholder servicing, other fund expenses, and sometimes a distribution fee. If the fund also imposes sales charges, you may pay an initial or deferred sales charge. Each fund's current prospectus should disclose these separate fees and expenses. These fees are in addition to and separate from AZA's fees. A copy of the prospectus is available from the fund.

AZA's fees are exclusive of brokerage commissions, transaction fees, and other related costs and expenses which shall be incurred by the client. 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. Such charges, fees and commissions are exclusive of and in addition to AZA's management fee, and AZA shall not receive any portion of these commissions, fees, and costs.

- D. *Fees Paid in Advance.* AZA calculates fees for discretionary investment management, in advance, on a quarterly basis based on the fair market value of the assets of the account, as determined by AZA, as of the last business day of the quarter, and the resulting amount is divided by four. The client's initial fee will be prorated and billed based on the market value of the assets as of the signing of the investment advisory agreement by the client and no later than the first day of trading. AZA prorates its fee for accounts initiated or terminated during a calendar quarter. AZA also prorates its advisory fees for each capital contribution greater than \$10,000 made during the applicable calendar quarter. If the account is margined, the fee will be based on the total value of the underlying securities, not the net equity in the account (unless otherwise negotiated).

The investment advisory agreement may be terminated at any time by either the client or AZA by giving written notice to the other. With respect to any unearned fee, the prorated portion will be calculated based on the number of days remaining in the applicable quarterly period after the termination date. Any prepaid amount due to client will be returned within 30 days following the close of the quarter following termination. Any earned, unpaid fees will be due and payable.

Termination of AZA's agreement shall not affect liabilities or obligations incurred from transactions initiated under our agreement prior to the termination date, such as the purchase of investments by AZA for client's account. Clients are responsible for any cost incurred in transferring assets from their account to a different account and any management fees accrued and unpaid at the time of termination. After the termination date, AZA will have no further duties or obligations to the client under our agreement.

#### **ITEM 6 – PERFORMANCE BASED FEES AND SIDE-BY-SIDE MANAGEMENT**

Currently, AZA only manages accounts that pay asset-based management fees as described in Item 5. The Adviser does not manage separate accounts that pay performance-based fees.

#### **ITEM 7 – TYPES OF CLIENTS**

AZA generally provides asset management and consulting services to high net worth individuals and families, corporate pension and profit-sharing plans, charitable institutions, foundations, endowments, estates, and trust programs.

#### **ITEM 8 – METHODS OF ANALYSIS, INVESTMENT STRATEGIES AND RISK OF LOSS**

##### **Investing in securities involves risk of loss that clients should be prepared to bear.**

- A. *Methods of Analysis.* Adviser employs a wide range of information in formulating investment advice and managing assets. Information sources include, but are not limited to the following: (i) financial newspapers and magazines, (ii) research prepared by other organizations, (iii) annual reports, prospectuses, and other SEC filings, and (iv) company press releases, presentations, and other corporate communications. Adviser also purchases and reviews information from recognized financial services information aggregators. Adviser creates and currently utilizes customized screening programs populated with the data purchased from recognized information aggregators. Finally, Adviser may utilize its own proprietary valuation models for securities analysis. In general, Adviser employs fundamental and technical analysis of the US economy, the global economy, and specific securities to provide investment advice and manage client assets.
- B. *Investment Strategies.* The investment strategies most frequently used by AZA are 1) DRIV Core, 2) Core Equity and Options, 3) Enhanced Income, and 4) Custom Bond Portfolios.
  - i. DRIV Core – DRIV Core is a tactical allocation strategy that seeks to achieve returns comparable to the broad U.S. stock market over full cycles but with less volatility and downside risk. The goal is to achieve superior risk-adjusted returns over the long run. This approach focuses on varying

the portfolio allocation between stock and bond investments over time and through different market conditions, based on our analysis of valuations and projected returns.

This long-term growth strategy should be evaluated over full market cycles that include extended periods of market growth and decline. Investments are made in exchange traded funds or indexed mutual funds that represent broad assets classes. Individual investments are evaluated based on liquidity, cost, and the quality of representation to the underlying asset class. Allocations among the various investments are actively managed. Allocation decisions are guided primarily by an objective, rules-based framework that focuses on the following four areas of research: 1) relative valuations, 2) bond market yield analysis, 3) economic conditions, and 4) momentum analysis.

The primary allocation decision focuses on the ratio between equity and bond investments, where an excess of 80% of the portfolio could be allocated to either asset class. Within the equity allocation, weightings among different style and capitalization classes will be managed over time. Within the bond allocation, weightings among different duration and classes will be managed over time. There is risk that the individual investment may not track the underlying asset classes, and there is also risk that allocations may be sub-optimal for a given time period.

- ii. Core Equity and Options – The Core Equity and Options (“CEO”) strategy is an actively managed approach that generally holds 20 to 30 large capitalization equities and may write longer duration covered call options and/or cash-secured put options. When compared to an all stock portfolio, our primary objectives in using options are to increase cash flow, reduce volatility, and manage net exposure to the underlying equities. This long-term growth strategy should be evaluated over full market cycles that include extended periods of market growth and decline. Returns are primarily driven by capital appreciation, dividends, and/or option premiums. Returns will be affected by stock and sector selection based on fundamental and technical analysis, dividends, spot and strike prices, time to expiration, implied volatilities, and interest rates.

Covered call writing is a method whereby an investor holds a long position in an asset and writes (sells) call options on that same asset in an attempt to generate income from that asset. Some degree of upside price potential is exchanged for current income. For each covered call option contract that is exercised, the client is obligated to sell 100 shares of the underlying stock at the option’s exercise price.

Cash-secured put writing is a method whereby an investor writes (sells) a put option and simultaneously sets aside enough cash to buy the underlying stock. The goal is to be assigned the stock below the current market prices, while generating a return on the cash from the option premium. For each put option contract that is exercised, the client is obligated to buy 100 shares of the underlying stock at the option’s strike price.

Margin is not used in this strategy, unless directed by the client.

- iii. Enhanced Income – The Enhanced Income strategy focuses on current income as a primary objective, with capital appreciation as a secondary objective. This strategy surveys areas of the traditional bond market in addition to non-traditional, liquid sources of income such as master limited partnerships (MLPs), REITS, energy royalty trusts, convertible bonds, preferred stock, etc.

Security selection is based on momentum analysis. Momentum is the rate of acceleration of a security's price or volume. Momentum is considered an oscillator and is used to help identify price trends. Enhanced Income primarily relies on momentum analysis of several indexes associated with securities that pay high dividends and/or interest and some which pay very secure interest.

Technical analysis relies on historical information. There is the risk that such observations 1) cease to be reflected in the future, and 2) that the observations themselves may be incorrect. There is the additional risk that certain macro-economic events such as credit restrictions will impact some of the assets represented by certain indexes.

Additionally, when momentum changes, the strategy may experience a period of interim losses. If momentum shifts back and forth several times in a period of time, losses may be repeated. If the issues held do not trend over an intermediate period or longer, losses may compound. Finally, there may be macro-economic events, changes in government policies, acts of God, or other currently unanticipated circumstances which may result in losses.

- iv. Custom Bond Portfolios – Our custom bond portfolios offer customized solutions for a client's income, duration and tax needs. The composition of the portfolio will be comprised of a diversified mix of bonds, based on risk and income objectives. Bonds can be municipal, corporate, or government. In most instances we favor tax-free municipal bonds, but can use taxable municipal or corporate in circumstance specific to the client.

Our goal is to manage, to the degree possible, the inherent risks of investing in bonds. However, it should be noted that bonds carry the following risks: 1) interest rate risk, 2) reinvestment risk, 3) inflation risk, 4) credit/default risk, 5) rating downgrade, and 6) liquidity risk.

#### C. *Risk of Loss.*

*Material Risks of Investment Instrument.* AZA typically invests in the following types of securities:

1. Exchange Traded Funds
2. Mutual Fund Securities
3. Equity Securities
4. Fixed Income Securities (including Real Estate Investment Trusts & Master Limited Partnerships)
5. Municipal Securities
6. U.S. Government Securities
7. Option Contracts
8. Corporate Debt Obligations
9. Other Securities and Investments

Short-Term Trading – Although AZA, as a general practice does not utilize short-term trading, there may be instances in which short-term trading may be necessary for an appropriate strategy. In this regard, please read the following: ***There is an inherent risk for clients who trade frequently in that high-frequency trading creates substantial costs that in aggregate could negatively impact account performance.***



Short Selling – Short Selling involves the sale of a security that is borrowed rather than owned. When a short sale is affected, the investor is expecting the price of the security to decline in value so that a purchase or closeout of the short sale can be affected at a lower-price. The primary risks of effecting short sales is the availability to borrow the stock, the unlimited potential for loss, and the requirement to fund any difference between the short credit balance and the market value of the security.

Options Strategies – Various option strategies give the holder the right to acquire or sell underlying securities at the contract strike price up until expiration of the option. Long option positions entail securities without the capital commitment required to purchase the underlying security or group of securities. In addition, options allow investors to hedge security positions held in the portfolio. For detailed information, please contact the Options Clearing Corporation for the current Options Risk Disclosure Statement.

REITs – The general underlying risks associated with real estate and the sector of the real estate market associated with a particular issue. Credit restriction is a general negative for all real estate as are rising interest rates and poor economic conditions such as increasing unemployment or negative GDP growth. There is also the risk that the government may change the taxation on real estate in general or may revoke the pass-through status of REITs specifically. Finally, there may be macro-economic events, changes in government policies, acts of God, or other currently unanticipated circumstances which may result in losses.

MLPs – Master Limited Partnerships are unique investments that combine the tax benefits of a limited partnership with the liquidity of common stock. The general underlying risks associated with the energy industry and the sector of the energy market associated with a particular issue. Credit restriction is a general negative for all MLPs as are rising interest rates and poor economic conditions such as increasing unemployment or negative GDP growth. Shrinking usage of hydrocarbons in general would reduce the revenue of energy related MLPs. Many MLPs are in regulated businesses such as natural gas transmission. They are reliant on rates set by the government as well as overall government regulatory and safety issues. These policies could be changed by the federal or state authorities. Finally, there is also the risk that the government may change the taxation on MLPs in general or may revoke the pass-through status of MLPs specifically.

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, macro-economic events, changes in government policies, acts of God, or other currently unanticipated circumstances which may result in losses.

## 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 your evaluation of the Adviser or the integrity of the Adviser's management. AZA has no information applicable to this Item.

**ITEM 10 - OTHER FINANCIAL INDUSTRY ACTIVITIES OR AFFILIATIONS**

AZA has no information applicable to this item.

**ITEM 11 – CODE OF ETHICS**

AZA 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 AZA must acknowledge the terms of the Code of Ethics annually, or as amended.

AZA anticipates that, in appropriate circumstances and consistent with clients' investment objectives, it will recommend to invest advisory clients or prospective clients the purchase or sale of securities in which AZA, its affiliates and/or clients, directly or indirectly, have a position of interest. AZA's employees and persons associated with AZA are required to follow AZA's Code of Ethics. Subject to satisfying this policy and applicable laws, officers, directors and employees of AZA and its affiliates may trade for their own accounts in securities which are recommended to and/or purchased for AZA's clients. The Code of Ethics is designed to assure that the personal securities transactions, activities and interest of the employees of AZA 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 not materially interfere with the best interest of AZA's clients. In addition, the Code requires pre-clearance of many transactions and restricts trading in close proximity to client trading activity. 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 AZA and its clients.

Certain affiliated accounts may trade in the same securities with client accounts on an aggregated basis when consistent with AZA's obligation of best execution. In such circumstances, the affiliated and client accounts will receive securities at a total average price. Each affiliated and client account will pay its own commission rate by trade. AZA will retain records of the trade order (specifying each participating account) and its allocation, which will be completed prior to the entry of the aggregated order. Completed orders will be allocated as specified in the initial trade order. Partially filled orders will be allocated on a pro rata basis. Any exceptions will be explained on the Order.

AZA's clients or prospective clients may request a copy of the firm's Code of Ethics by contacting us by phone at 312-429-0880 or by email at [inquire@azacapital.com](mailto:inquire@azacapital.com).

It is AZA's policy that the firm will not affect any principal or agency cross securities transactions for client accounts. AZA will also not cross trade between client accounts. Principal transactions are generally defined as transactions where an adviser, acting as principal for its own account or the account of an affiliated broker-dealer, buys from or sells any security to any advisory client. A principal transaction may also be deemed to have occurred if a security is crossed between an affiliated hedge fund and another client account. An agency cross transaction is defined as a transaction where a person acts as an

investment adviser in relation to a transaction in which the investment adviser, or any person controlled by or under common control with the investment adviser, acts as broker for both the advisory client and for another person on the other side of the transaction. Agency cross transactions may arise where an adviser is dually registered as a broker-dealer or has an affiliated broker-dealer.

## ITEM 12 – BROKERAGE PRACTICES

### Recommended Brokerage/Custodian Services and Soft Dollars

Unless otherwise instructed by a client, AZA has complete discretion in selecting the broker/custodian that it uses for client transactions and the commission rates that clients pay such broker/custodian. In selecting a broker/custodian for any transaction or series of transactions, AZA may consider a number of factors, including, for example:

- Net price, clearance, settlement and reputation
- Financial strength and stability
- Efficiency of execution and error resolution
- Block trading and block positioning capabilities
- Willingness to execute related or unrelated difficult transactions in the future
- Special execution capabilities
- Order of call
- Offering to AZA on-line access to client account data
- Computer trading systems
- Availability of stocks to borrow for short trades

If a client designates a specific broker-dealer for transactions, AZA will not attempt to negotiate commissions or other transaction costs. Clients designating a broker-dealer may pay higher commission rates or other transaction costs and may not receive as favorable an execution as would be the case if AZA were allowed to select the broker-dealer.

### TD Ameritrade

AZA has established a relationship with TD Ameritrade Institutional, Division of TD Ameritrade, Inc. member FINRA/SIPC (“TD Ameritrade”), an independent and unaffiliated SEC-registered broker-dealer. In selecting this broker-dealer, AZA considered its variety of services, financial stability and competitive commission rates. Accordingly, clients may pay commissions in excess of those which TD Ameritrade or another broker may charge for transactional services alone, in recognition of the additional services provided. AZA, however, must determine in good faith that the amount of any commission paid is reasonable in relation to the value of the brokerage and research services provided, viewed in terms either of a particular transaction or our overall responsibilities with respect to accounts as to which AZA exercises investment discretion. AZA evaluates other brokers, from time to time, to determine if a better combination of services and commission rates are available for our clients. AZA must also determine that any services AZA receives provide lawful and appropriate assistance in the performance of our investment decision-making responsibilities.

AZA participates in the TD Ameritrade Institutional Advisor program (the "Program") offered by TD Ameritrade Institutional. TD Ameritrade Institutional is a division of TD Ameritrade, Inc., member FINRA/SIPC/NFA ("TD Ameritrade"), an unaffiliated SEC-registered broker-dealer and FINRA member. TD Ameritrade offers independent investment advisory firms, like us, services which include custody of securities, trade execution, clearance and settlement of transactions. AZA receives some of these benefits from TD Ameritrade through our participation in the Program (Please see the disclosure under Item 14).

There is no direct link between AZA's participation in the Program and the investment advice we give to our clients, although AZA receives benefits through our participation in the Program that are typically not available to TD Ameritrade retail investors. These benefits include the following products and services provided without cost or at a discount:

- Receipt of duplicate client statements and confirmations
- Research related products and tools
- Access to a trading desk
- Access to block trading
- Deduction of advisory fees from client accounts
- Access to mutual funds with no transaction fees
- Access to certain institutional money managers
- Compliance, marketing, research, technology and practice management products or services provided to AZA by third party vendors

Some of the products and services AZA receives from TD Ameritrade through the Program may benefit us but may not benefit our client accounts. These products or services may assist us in managing and administering our client accounts, including accounts not maintained at TD Ameritrade. Other services made available by TD Ameritrade are intended to help AZA manage and further develop our business enterprise.

The benefits received by AZA or our related persons, through participation in the Program, do not depend on the amount of brokerage transactions directed to TD Ameritrade. As part of our fiduciary duty to our clients, AZA endeavors at all times to put our client's interests first. Clients should be aware, however, that the receipt of economic benefits by AZA or its related persons in and of itself creates a potential conflict of interest and may indirectly influence AZA's choice of TD Ameritrade for custody and brokerage services. We believe, however, that our recommendation is in the client's best interest. AZA's selection is primarily supported by scope, quality and price of TD Ameritrade's services, and not merely the services that only benefit our Firm.

AZA also receives from TD Ameritrade certain additional economic benefits ("Additional Services") that may or may not be offered to any other independent investment Advisors participating in the Program. Specifically, the Additional Services include service from Bloomberg, which provides AZA with assistance in such areas as pricing, portfolio management, dividend history and the tracking of trades. TD Ameritrade provides the Additional Services to AZA in its sole discretion and at its own expense, and AZA does not pay any fees to TD Ameritrade for the Additional Services. AZA and TD Ameritrade have entered into a separate agreement ("Additional Services Addendum") to govern the terms of the provision of the Additional Services.

AZA's receipt of Additional Services raises potential conflicts of interest. In providing Additional Services to AZA, TD Ameritrade most likely considers the amount and profitability to TD Ameritrade of the assets in, and trades placed for, AZA's client accounts maintained with TD Ameritrade. TD Ameritrade has the right to terminate the Additional Services Addendum with AZA, in its sole discretion, provided certain conditions are met. Consequently, in order to continue to obtain the Additional Services from TD Ameritrade, AZA may have an incentive to recommend to its clients that the assets under management by AZA be held in custody with TD Ameritrade and to place transactions for client accounts with TD Ameritrade. AZA's receipt of Additional Services does not diminish its duty to act in the best interests of its clients, including to seek best execution of trades for client accounts.

We have not and do not intend to enter into any contractual third-party soft-dollar arrangements, such as committing to place a specific level of brokerage with a specific firm in return for which the brokerage firm will pay for various research related products or services for us that are generally available for cash purchase.

#### Block Trading

As an investment advisory firm, AZA has a fiduciary and fundamental duty to seek best execution for client transactions. AZA, as a matter of policy and practice, seeks to obtain best execution for client transactions, i.e., seeking to obtain not necessarily the lowest commission but the best overall qualitative execution in the particular circumstances. The traders consider various factors to achieve the best execution. The following lists the primary methods and tools used:

Traders consider the size of the trade in relation to the liquidity or daily volume of the security as well as market conditions and desired entry or exit prices. Trades can be placed as market orders in instances where a security is highly liquid and/or the trade size is an insignificant proportion of the daily volume. Price limits may be placed on orders when a security is highly illiquid, the trade size is a significant proportion of the daily volume, and/or traders desire a certain entry or exit price. Traders may break large orders into smaller blocks to prevent a heavy influence on the market price.

Traders use block orders when a trade involves multiple accounts in the same investment strategy. All client accounts participating in the same block will receive an average price calculated by the broker when multiple executions occur. In certain situations, when the full block is not completely filled, AZA may allocate shares based on a random order to reduce commission costs as described below in "Trade Rotation."

Difficult block trades may be worked for several days, to acquire or liquidate a full position. Typically, each original block will be documented and then the amount acquired each day will be average priced to participating accounts, and the trade re-entered the following days at the net (remaining amount) until the position is fully acquired or liquidated.

#### Trade Rotation

When block trades in a single security are made over multiple custodians the order of the trading maybe important. We use a custom made application to randomly generate a list of custodial/brokerage firms. We trade sequentially in the order of the list.

### Trade Error Policy

AZA has the responsibility to process trade orders correctly, promptly and ensure the best interest of our clients are served. In the event an error occurs in the handling of any client transaction, due to our action or actions of others, our policy is to seek to identify and correct any errors as promptly as possible without disadvantaging the client or benefiting us. If AZA is responsible for a trade error that results in a loss in the client's account, AZA reimburses the client's account for the entire amount of the loss as soon as practical after the discovery of the error.

For a client accounts held in custody at TD Ameritrade, if a trade error results in a gain, TD Ameritrade will automatically sweep the gain from our trade error account to a designated TD Ameritrade error account and then donate the balance of the TD Ameritrade error account to charity. In all cases, where a trading error results in a gain, AZA will not be given the benefit of the net profit. AZA does maintain appropriate records for all trade errors.

### **ITEM 13 – REVIEW OF ACCOUNTS**

AZA has adopted a team approach to account management and review. Accounts are reviewed on an ongoing basis by the Chief Investment Officer and firm principals. Should a strategy indicate that a general action be taken across a given segment of the accounts with similar objectives, the specific asset class involved in each designated account is immediately reviewed and the transaction executed on a timely bases. AZA utilizes a third-party trade order management system that includes the investment objective, policy, and restrictions for each account. Client investment restrictions are referenced against any potential transactions prior to initiating trades.

### Reports

Clients are provided with quarterly performance reports (other than those participating in "wrap programs"). At a minimum, these reports include time-weighted total return which is calculated and reported net of management fees and transaction costs. Supplemental reports may be used to provide additional detail. These reports are always sent even though similar reports may be sent by consultants or custodians.

AZA strives to conduct face-to-face reviews with clients at the client's instigation. Where AZA may act as a sub-advisor or as an investment advisor in a "wrap program," this responsibility is assumed by the primary advisor with the direct relationship.

There are also numerous other reports available by request.

### **ITEM 14 – CLIENT REFERRALS AND OTHER COMPENSATION**

As disclosed under Item 12 above, AZA participates in TD Ameritrade's institutional customer program and AZA may recommend TD Ameritrade to Clients for custody and brokerage services. There is no direct link between AZA's participation in the program and the investment advice it gives to its Clients, although AZA receives economic benefits through its participation in the program that are typically not available to TD Ameritrade retail investors. These benefits include the following products and services (provided

without cost or at a discount): receipt of duplicate Client statements and confirmations; research related products and tools; consulting services; access to a trading desk serving AZA participants; access to block trading (which provides the ability to aggregate securities transaction for execution and then allocate the appropriate shares to Client accounts); the ability to have advisory fees deducted directly from Client accounts; access to an electronic communications network for Client order entry and account information; access to mutual funds with no transaction fees and to certain institutional money managers; and discounts on compliance, marketing, research, technology, and practice management products or services provided to AZA by third party vendors. TD Ameritrade may also have paid business consulting and professional services received by advisor's related persons. Some of the products and services made available by TD Ameritrade through the program may benefit AZA but may not benefit its Client accounts. These products or services may assist AZA in managing and administering Client accounts, including accounts not maintained at TD Ameritrade. Other services made available by TD Ameritrade are intended to help AZA manage and further develop its business enterprise. The benefits received by AZA or its personnel through participation in the program do not depend on the amount of brokerage transactions directed to TD Ameritrade. As part of its fiduciary duties to clients, AZA endeavors at all times to put the interests of its clients first. Clients should be aware, however, that the receipt of economic benefits by AZA or its related persons in and of itself creates a potential conflict of interest and may indirectly influence AZA's choice of TD Ameritrade for custody and brokerage services.

AZA may receive client referrals from TD Ameritrade through its participation in TD Ameritrade AdvisorDirect. In addition to meeting the minimum eligibility criteria for participation in AdvisorDirect, AZA may have been selected to participate in AdvisorDirect based on the amount and profitability to TD Ameritrade of the assets in, and trades placed for, client accounts maintained with TD Ameritrade. TD Ameritrade is a discount broker-dealer independent of and unaffiliated with AZA and there is no employee or agency relationship between them. TD Ameritrade has established AdvisorDirect as a means of referring its brokerage customers and other investors seeking fee-based personal investment management services or financial planning services to independent investment advisors. TD Ameritrade does not supervise AZA and has no responsibility for AZA's management of client portfolios or AZA's other advice or services. AZA pays TD Ameritrade an on-going fee for each successful client referral for the life of the relationship. Since July 1, 2010 this fee is 25% of the advisory fee paid to AZA by client ("Solicitation Fee"). AZA will also pay TD Ameritrade the Solicitation Fee on any advisory fees received by AZA from any of a referred client's family members, including a spouse, child or any other immediate family member who resides with the referred client and hired AZA on the recommendation of such referred client. AZA will not charge clients referred through AdvisorDirect any fees or costs higher than its standard fee schedule offered to its clients or otherwise pass Solicitation Fees paid to TD Ameritrade to its clients. For information regarding additional or other fees paid directly or indirectly to TD Ameritrade, please refer to the TD Ameritrade AdvisorDirect Disclosure and Acknowledgement Form.

AZA's participation in AdvisorDirect raises potential conflicts of interest. TD Ameritrade will most likely refer clients through AdvisorDirect to investment advisors that encourage their clients to custody their assets at TD Ameritrade and whose client accounts are profitable to TD Ameritrade. Consequently, in order to obtain client referrals from TD Ameritrade, AZA may have an incentive to recommend to clients that the assets under management by AZA be held in custody with TD Ameritrade and to place transactions for client accounts with TD Ameritrade. In addition, AZA has agreed not to solicit clients referred to it through AdvisorDirect to transfer their accounts from TD Ameritrade or to establish brokerage or custody accounts at other custodians, except when its fiduciary duties require doing so. AZA's participation in AdvisorDirect does not diminish its duty to seek best execution of trades for client accounts.

Adviser also receives from TD Ameritrade certain additional economic benefits (“Additional Services”) that may or may not be offered to any other independent investment Advisors participating in the program. Specifically, the Additional Services include service from Bloomberg, which provides Adviser with assistance in such areas as pricing, portfolio management, dividend history and the tracking of trades. TD Ameritrade provides the Additional Services to Adviser in its sole discretion and at its own expense, and Adviser does not pay any fees to TD Ameritrade for the Additional Services. Adviser and TD Ameritrade have entered into a separate agreement (“Additional Services Addendum”) to govern the terms of the provision of the Additional Services.

Adviser’s receipt of Additional Services raises potential conflicts of interest. In providing Additional Services to Adviser, TD Ameritrade most likely considers the amount and profitability to TD Ameritrade of the assets in, and trades placed for, Adviser’s Client accounts maintained with TD Ameritrade. TD Ameritrade has the right to terminate the Additional Services Addendum with Adviser, on its sole discretion, provided certain conditions are met. Consequently, in order to continue to obtain the Additional Services from TD Ameritrade, Adviser may have an incentive to recommend to its Clients that the assets under management by Adviser be held in custody with TD Ameritrade and to place transactions for Client accounts with TD Ameritrade. Adviser’s receipt of Additional Services does not diminish its duty to act in the best interests of its Clients, including to seek best execution of trades for Client accounts.

#### Other Third Party Solicitors

AZA may engage solicitors to market its advisory services. If we do so, clients will receive a separate solicitor’s disclosure brochure describing our solicitation arrangements, the compensation AZA pays to the solicitor, and the terms of that relationship. Clients will also receive a copy of this Brochure. Solicitor compensation may be paid during a specified period after AZA begins providing advisory services to the client or for the entire time that the client remains one of AZA’s clients. The solicitor may therefore have a financial incentive to recommend AZA’s advisory services over other programs or services. The amount of this compensation may be more than the amount the solicitor would receive if the client participated in other programs or paid separately for investment advice, brokerage and other services.

Generally, the fee earned by the solicitor is paid out of the normal and customary fee schedule charged by AZA, which would not result in an increase of the fee to the client.

#### **ITEM 15 – CUSTODY**

Clients generally receive, at a minimum, quarterly statements from the broker dealer, bank or other qualified custodian that holds and maintains client’s investment assets. AZA urges Clients to carefully review such statements and compare such official custodial records to the account reporting provided by AZA as described in the “ITEM 13: REVIEW OF ACCOUNTS.” Our statements may vary from custodial statements based on accounting procedures, reporting dates, or valuation methodologies of certain securities.

Although clients may give AZA their personal identification number to access their Advisory Account(s) (e.g. 401(k) participant account), we have determined that in this situation the personal identification number will not give AZA access to withdraw assets from the client account. Thus, AZA does not have custody of those accounts.



**ITEM 16 – INVESTMENT DISCRETION**

AZA generally receives discretionary authority from the client at the outset of an advisory relationship in the investment advisory agreement. If you choose to give AZA discretionary authority, you grant AZA the ability to determine, without obtaining your specific consent, the securities to purchase or sell for your account, the amount of securities to be purchased or sold, and in most cases, the broker or dealer used and commission rate to be paid. In all cases, however, such discretion is to be exercised in a manner consistent with the stated investment objectives for the particular client account.

When selecting securities and determining amounts, AZA observes the investment policies, limitations and restrictions of the clients for which it advises. For registered investment companies, AZA's authority to trade securities may also be limited by certain federal securities and tax laws that require diversification of investments and favor the holding of investments once made.

Investment guidelines and restrictions must be provided to AZA in writing. Clients may amend the discretionary authority they have given AZA at any time in writing and AZA reserves the right to accept or reject such an amendment.

**ITEM 17 – VOTING CLIENT SECURITIES**

When agreed upon in the investment advisory agreement, AZA will vote proxies. AZA has adopted and implemented policies and procedures that we believe are reasonably designed to ensure that proxies are voted in the best interest of clients, in accordance with our fiduciary duties and SEC rule 206(4)-6 under the Investment Advisers Act of 1940. Our authority to vote the proxies of our clients is established by our investment advisory agreement and our proxy voting guidelines have been tailored to reflect these specific obligations. In addition to SEC requirements governing advisers, our proxy voting policies reflect the fiduciary standards and responsibilities for ERISA. With respect to ERISA accounts, we will always vote proxies unless the plan documents specifically reserve the plan sponsor's right to vote its own proxies. If situations should arise where the interests of a client may possibly conflict with our interests with respect to any shareholder proposals for which proxies are being solicited, we will request the client's instructions with respect to the vote.

Clients may obtain a copy of AZA's complete proxy voting policies and procedures upon request. Clients may also obtain information from AZA about how AZA voted any proxies on behalf of their account(s) by contacting us by phone at 312-429-0880.

**ITEM 18 – FINANCIAL INFORMATION**

Registered investment advisers are required in this Item to provide you with certain financial information or disclosures about AZA's financial condition. AZA has no financial commitment that impairs its ability to meet contractual and fiduciary obligations to clients, and has not been the subject of a bankruptcy proceeding.

**ITEM 19 - ADDITIONAL INFORMATION**

AZA may collect nonpublic personal information from you in order to provide certain services. Client trust is paramount to us, and we respect the confidentiality and privacy of your information. The Privacy Notice explains certain steps we have taken to ensure the privacy of nonpublic personal information of individuals protected by privacy regulations issued pursuant to the Gramm-Leach-Bliley Financial Modernization Act.

What do we collect?

We may collect non-public personal information about you from the following sources: information that you provided to us on applications or other forms; information that we generate to service your account, such as account statements; and information that we may receive from third parties.

What information do we disclose?

We do not sell your nonpublic personal information to anyone, and we do not disclose such information to anyone except as permitted or required by law. In order to provide you with services, we may disclose any of your information to certain third parties permitted by law, including those necessary to service your account, such as custodians, accountants, trustees and legal counsel. Subject to confidentiality agreements, we may also disclose such information to third-party service providers permitted by law.

AZA utilizes a third-party provider for the management and maintenance of its information technology platform. While AZA owns its servers which reside onsite, service providers can access AZA's servers remotely for routine maintenance. In addition, AZA utilizes a third-party electronic mail host. To protect the nonpublic information of its clients, AZA has executed mutual non-disclosure agreements with its vendors. Under the agreement, AZA's nonpublic client data, in any form, is specifically identified as "confidential data" that cannot be disclosed unless disclosure is compelled by a governmental or regulatory authority with powers to extract the information. Even in these cases, the vendor is required to notify us that the data has been requested so that our clients have the opportunity to petition the court or administrative body to prevent disclosure.

How do we protect your information?

We restrict access to your nonpublic personal information to those employees who need to know such information to provide services to you. We maintain certain physical, electronic and procedural safeguards which are designed to protect your nonpublic personal information.

Revised Policies and Practices

We reserve the right to revise our privacy policies and practices, but we will not disclose your personal nonpublic information (except as described in the Privacy Notice or as required or permitted by law) without giving you an opportunity to direct us not to disclose such information.

Even if you are no longer a client of AZA, the Company's Privacy Policy will continue in force.