

# Aware Asset Management, Inc.

## Part 2A of Form ADV Firm Brochure

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March 29, 2019

This Brochure provides information about the qualifications and business practices of Aware Asset Management, Inc. (“AAM”). If you have any questions about the contents of this Brochure, please contact us at 651-662-9886 and/or [info@awareassetmgmt.com](mailto:info@awareassetmgmt.com). The information in this Brochure has not been approved or verified by the United States Securities and Exchange Commission (“SEC”) or any state securities authority.

AAM is a registered investment adviser with the SEC (CRD Number 286557 and SEC File Number 801-111803).. AAM’s registration as an investment adviser does not imply any level of skill or training. Additional information about AAM is also available on the SEC’s website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).

## Item 2 – Material Changes

This Brochure dated March 29, 2019 is the annual updating amendment to AAM’s previously published Brochure.

Since our most recent Brochure dated March 2018, the following material changes have been made:

- Item 4 has been updated to reflect the investment management advisory services to the Aware Ultra-Short Duration Enhanced Income ETF as a subadviser. Related information in Item 5 has also been updated.
- Item 10 has been updated to provide updated disclosure around possible conflicts of interest and our policies and practices designed to mitigate such conflicts of interest.

Pursuant to industry regulations, we will ensure that you receive a summary of any material changes to this and subsequent Brochures within 120 days of the close of our business’ fiscal year. We may further provide other ongoing disclosure information about material changes as necessary.

A current Brochure can be requested at any time, without charge, by contacting us at 651-662-9886 and/or [info@awareassetmgmt.com](mailto:info@awareassetmgmt.com).

Additional information about AAM is also available on the SEC’s website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov). The SEC’s website also provides information about any persons affiliated with AAM who are registered, or are required to be registered, as investment adviser representatives of AAM.

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## Item 4 – Advisory Business

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Aware Asset Management, Inc. (“AAM”) offers Discretionary Investment Management and Asset Allocation services as an investment adviser registered with the Securities and Exchange Commission (the “SEC”) and wholly owned subsidiary of Aware Integrated, Inc. With investment teams in place since 2012, AAM commenced operations in January of 2018 by transitioning the investment division from BCBSM, Inc., d/b/a Blue Cross and Blue Shield of Minnesota (“Blue Cross”), which is also a subsidiary of Aware Integrated, Inc.

### Investment Management Advisory Services

Our Discretionary Investment Management Fixed Income strategies include:

AAM’s **Intermediate Credit Bond Strategy** has the objective of yield enhancement and generating risk-adjusted returns by investing in credit markets utilizing a broad number of securities. The target attributes include:

|                                       |   |
|---------------------------------------|---|
| <i><b>Average Credit Quality:</b></i> | <i><b>&gt;=A-</b></i>   |
| <i><b>Country Exposure:</b></i>       | <i><b>Developed Markets (sovereign credit rating &gt;BB+) with a bias towards US and Canada</b></i> |
| <i><b>Cash:</b></i>                   | <i><b>0 to 5%</b></i>   |
| <i><b>Effective Duration:</b></i>     | <i><b>+/- 20% of Benchmark Duration</b></i>   |
| <i><b>No. of Issuers:</b></i>         | <i><b>&gt;100</b></i>   |
| <i><b>Benchmark:</b></i>              | <i><b>Bloomberg Barclays Intermediate Credit Index</b></i>  |

AAM's **Core Bond Strategy** seeks to outperform the benchmark while enhancing yield and providing diversification utilizing a broad number of securities to minimize risk. The target attributes include:

|                                   |  |
|-----------------------------------|--|
| <b><i>Credit Quality:</i></b>     | <i>&gt;=A-</i>   |
| <b><i>Country Exposure:</i></b>   | <i>Developed Markets (sovereign credit rating &gt;BB+) with a bias towards US and Canada</i> |
| <b><i>Cash:</i></b>               | <i>0 to 5%</i>   |
| <b><i>Effective Duration:</i></b> | <i>+/- 10% of Benchmark Duration</i>   |
| <b><i>No. of Issuers:</i></b>     | <i>&gt;100</i>   |
| <b><i>Benchmark:</i></b>          | <i>Bloomberg Barclays Aggregate Index</i>  |

AAM's **Structured Opportunity Strategy** seeks to outperform its benchmark by combining current income and capital appreciation through investing within the structured product universe. This strategy may also incorporate leverage. The target attributes include:

|                               |                              |
|-------------------------------|------------------------------|
| <b><i>Credit Quality:</i></b> | <i>&gt;=Investment Grade</i> |
| <b><i>Country Focus:</i></b>  | <i>US</i>                    |
| <b><i>Cash:</i></b>           | <i>0 to 5%</i>               |
| <b><i>Benchmark:</i></b>      | <i>3 Month LIBOR</i>         |

AAM provides investment management advisory service to the Aware Ultra-Short Duration Enhanced Income ETF (the "ETF"), a series of the Tidal ETF Trust, as a subadviser. AAM has broad discretion to determine the most favorable strategies and investment opportunities for the ETF, as well as the instruments and investment techniques used by the ETF to achieve its investment objective. AAM determines which instruments to purchase, hold, or sell based on a variety of factors, including expectations regarding an instrument or group of instruments' risk and correlation, as well as market conditions and economic metrics, such as interest rates and inflation. AAM seeks to buy instruments that it believes will best help the AAM achieve its objective and seeks to sell instruments whose outlook has changed or to redeploy assets in more attractive investment opportunities. More information about the ETF, including fees, is available

in the ETF's prospectus, which is available on the SEC's website at <https://www.sec.gov/edgar/searchedgar/mutualsearch.html>.

### **Asset Allocation Advisory Services**

AAM's Asset Allocation Advisory Service provides assistance to clients (each a "Client" and collectively, the "Clients") in formulating long-term, strategic asset allocation plans. With inputs gathered from the Clients, including investment objectives, risk tolerance and other factors, AAM conducts asset allocation modeling. The output of this process sets the parameters for future risk and return expectations, which are used as a tool for establishing relative asset positioning.

When appropriate, AAM will also review various independent investment managers and make recommendations as to which manager(s) are appropriate to implement based upon each Client's Investment Policy Statement. AAM will monitor and supervise each Client's investments and will make recommendations to such Client as market factors and Client's needs dictate.

Allocation and manager recommendations are reviewed by AAM's Investment Committee to ensure they comply with each Client's Investment Policy Statement, risk tolerance and investment objectives. While evaluating a Client's asset allocation, AAM may recommend increases or decreases to amounts allocated to Discretionary Investment Management Fixed Income strategies managed by AAM, creating a conflict of interest. Clients are not under any obligation to implement the recommended allocation.

### **Tailoring of Advisory Services**

AAM tailors its service to the needs of each Client according to such Client's Investment Policy Statement, including restrictions on securities available for investment. Common restrictions on investing in securities include the prohibition on investing in companies who generate more than a nominal portion of their revenue from the sale of tobacco products.

### **Wrap Fees**

AAM does not sponsor any wrap fee programs.

### **Assets Under Management**

AAM managed \$1,719,312,483 in Client assets on a discretionary basis, as of December 31, 2018.

## Item 5 – Fees and Compensation

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Fees for all advisory services generally depend on the services being provided and are outlined in the Investment Management Agreement.

### Investment Management Advisory Services Fees

For Investment Management Advisory Services, fees typically are expressed as a percentage of assets under management. Discretionary investment management fees are based on assets under management within a specific Discretionary Investment Management Fixed Income strategy and calculated on the fair market value of the account assets on the last day of the calendar quarter. Fees in all categories and ranges described below are subject to negotiation as appropriate. Tiered investment management pricing for assets under management is as follows:

| Strategy                 | First \$50 million | Greater than \$50 million |
|--------------------------|--------------------|---------------------------|
| Intermediate Credit Bond | 0.30%              | Negotiable                |
| Core Bond                | 0.30%              | Negotiable                |
| Structured Opportunity   | 0.60%              | Negotiable                |

To the extent permitted under the Investment Advisers Act of 1940, as amended (the “Investment Advisers Act”), or the applicable provisions of the Investment Company Act of 1940, as amended (the “Investment Company Act”), in the case of investment companies registered under the Investment Company Act and advised or sub-advised by an adviser, advisers negotiate the fees. As the subadviser of the ETF, AAM entered into a Subadvisory Agreement with the investment adviser which sets forth the fee structures. The advisory and other fees and expenses that investment adviser received from the ETF are generally disclosed in the applicable prospectus, which is available on the SEC’s website at <https://www.sec.gov/edgar/searchedgar/mutualsearch.html>.

### Asset Allocation Advisory Services Fees

Fees for Asset Allocation Advisory Services are based on the assets under advisory and exclude any amounts included in discretionary management with AAM. Fees for Asset Allocation Advisory Services are negotiable and may be waived under certain conditions. Because of the nature of the independent managers recommended to Clients through the Asset Allocation Advisory Services, this service is only available for Clients who are qualified purchasers as defined in section 2(a)(51)(A) of the Investment Company Act.

The specific manner in which fees are charged by AAM is established in the Client's Investment Management Agreement with AAM. AAM bills fees, in arrears each calendar quarter. Clients authorize AAM to directly debit fees from Client accounts. Clients may elect to be billed for service. Clients and AAM may also offset any amounts due to the other party during the quarter. Accounts initiated or terminated during a calendar quarter will be charged a prorated fee. Upon termination of any account, any prepaid, unearned fees will be promptly refunded, and any earned, unpaid fees will be due and payable.

Fees charged to affiliates are generally less than fees charged to unaffiliated Client accounts.

AAM fees are exclusive of brokerage commissions, transaction fees, and other related costs and expenses which shall be incurred by the Clients. Clients may incur certain charges imposed by custodians, brokers, third party investment managers 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 AAM's fees, and AAM does not receive any portion of these commissions, fees, and costs.

Item 12 further describes the factors that AAM considers in selecting broker-dealers for Client transactions and determining the reasonableness of their compensation (*e.g.*, commissions and trading costs).

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

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At the present time, AAM does not manage assets for Clients with performance-based fees (fees based on a share of capital gains or on capital appreciation of the assets of a Client).

#### **Item 7 – Types of Clients**

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AAM offers discretionary asset management and non-discretionary asset allocation services to insurance companies, including separate accounts of insurance companies, investment companies including exchange traded funds, and other institutional investors, typically with \$50 million or more in investable assets.



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

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### **Methods of Analysis and Investment Strategies**

AAM manages portfolios that primarily consist of US Treasury, Structured and Corporate Credit. Our investment team draws on macroeconomic, fundamental and technical analysis across these sectors, as described in this item. In addition, we use an internally-developed, proprietary set of quantitative statistical tools for portfolio optimization and allocation among asset classes.

Across all strategies, economic and market reviews, which include regular review of global economic and market environments, identify scenarios (opportunities and/or threats) to develop annual short-term and long-term themes that provide the basis for our overall portfolio positioning. Themes are continuously monitored with the ultimate objective of the review focused on establishing and adjusting the portfolios' credit positions.

We track duration, spread and trading levels for portfolio names. Monthly Investment Committee meetings refine investment themes and communicate market developments and expectations. Portfolio holdings are monitored on a real-time basis and discussions among investment team occur on a continuous basis. Monitors are established that screen for spread movements, news flows and market developments alert investment management on a real-time basis.

### **Corporate Investment Strategies**

AAM seeks to earn active management returns from choosing better performing issues than those contained in the benchmark. Using a combination of bottom-up analysis and a macroeconomic market perspective, investment decisions reflect the investment team's depth of knowledge in fixed income credit markets, portfolio management, credit research and trading. As a result of this collaborative process, our portfolio composition reflects the opinions, investment themes, and conviction of the Investment Committee.

Within corporate credit we focus primarily on sector allocation and bond selection. Sector allocation decisions are informed by macroeconomic factors, the relative credit quality and value among sectors, and by the depth of experience and judgment of the Investment Committee. Additional insights are gained from external research, publications, and participating in industry organizations. Our credit research and trading desk continuously discuss the drivers of a sector, and what influences spreads to cheapen or tighten.

Our credit selection process includes a bottom-up, fundamental credit research approach. We seek to identify appropriate credit metrics within a given sector, sort and rank companies within the sector, identify which companies are expected to outperform at various stages of the credit cycle; and, of equal importance, which companies are the defensive names that have demonstrated they outperform in the past, during the bottom of the credit cycle. We also gather insight from investment research, rating agency, and other external research sources where

necessary and quantify the attractiveness of current spread levels based on historic trading levels and formulating an opinion about whether the trend is likely to continue or change course. Finally, bottom-up security level analysis is performed, where we identify bond-specific factors, in order to position portfolios to benefit from anticipated moves in spread.

### **Structured Investments Strategy**

Structured analysis includes a fundamental, bottom-up credit research approach. Structural issues like covenants, restrictions, protections are evaluated on a security level basis. Financial upside and downside analysis that consists of collateral, cash flows, strategic value, and scenario analysis are an integral component of the process of identifying value in the structured strategy. Technical analysis is also important to decisions because trading that occurs based on technical indicators can be descriptive of relative value. Portfolio exposures and correlations are also considered, along with macroeconomic and geopolitical considerations. Our head of structured credit leverages third party analysis and research to assist in identifying potential areas of opportunity.

### **Summary of Investment Risks and Risk of Loss**

All investments entail the risk of loss and Clients must understand and acknowledge that investments may lose value. Securities markets may go through periods of declining values, although investments may lose value even in a rising market. AAM's asset management services are generally suitable only for long-term investment objectives or strategies, rather than short-term trading purposes. It is important that each Client understand that there is no guarantee that investment objectives will be achieved and that Clients could lose money.

The following describes the various risks that may be associated with AAM's asset management strategies:

**Allocation Risk** – is the risk that a strategy could lose money as a result of less than optimal or poor asset allocation decisions as to how its assets are allocated or reallocated among sectors and/or asset classes.

**Concentration Risk** – is the risk that the performance of a strategy that focuses its investments in a particular or limited segments, sectors, industries, universes or asset classes may be more susceptible to a single economic, regulatory or technological occurrence than an investment portfolio that does not concentrate its investments in a single or limited segments, sectors, industries universes or asset classes.

**Credit Risk** – is the risk that an issuer could suffer adverse changes in financial condition that could lower the credit quality of a security, potentially resulting in an increase in the yield spread. This can be magnified for longer duration securities. This could lead to

greater volatility in the price of the security and in the performance of an account. Also, a change in the quality rating of a debt security or other fixed income obligation can affect the security's or obligation's liquidity and make it more difficult to sell. Some strategies attempt to minimize the credit risk by investing in primarily investment grade obligations. However, all securities and obligations, especially those in the lower investment grade rating categories, have credit risk.

**Cybersecurity Risk** – is the risk that result from deliberate attacks or unintentional events include, but are not limited to, gaining unauthorized access to digital systems, misappropriating assets or sensitive information, corrupting data, or causing operational disruption, including the denial-of-service attacks on websites. With the increased use of technologies such as the Internet to conduct business, a portfolio is susceptible to operational, information security and related risks. Cyber security failures or breaches by a third party service provider and the issuers of securities in which the portfolio invests, have the ability to cause disruptions and impact business operations, potentially resulting in financial losses, the inability to transact business, violations of applicable privacy and other laws, regulatory fines, penalties, reputational damage, reimbursement or other compensation costs, and/or additional compliance costs, including the cost to prevent cyber incidents.

**Default Risk** – is the risk that an issuer of a debt security, (or an underlying obligor), or other fixed income obligation will not make payments on the security or obligation when due, or that the other party to a contract will default on its obligation. In adverse economic or other circumstances, issuers of these lower credit quality securities and obligations are more likely to have difficulty making principal and interest payments than issuers of higher credit quality securities and obligations.

**ETF Risk** – is the risk that an account that invests in exchange traded funds may be subject to additional risks that do not apply to conventional mutual funds, including the risks that the market price of an exchange traded fund's shares may trade at a premium or discount to its Net Asset Value ("NAV") per share, an active secondary trading market may not develop or be maintained, and trading may be halted by, or the exchange traded funds may be delisted from, the exchange on which they trade, which may impact the ability to sell shares of the exchange traded fund. The lack of liquidity in a particular exchange traded fund could result in it being more volatile than the exchange traded fund's underlying portfolio of securities. Exchange traded funds are also subject to the risks of the underlying securities or sectors the exchange traded funds are designed to track and there are brokerage commissions paid in connection with buying or selling exchange traded funds shares. In addition, exchange traded funds have management fees and other expenses. Each investor

in an exchange traded fund will bear its pro rata portion of these expenses and therefore the account's return may be lower than if it invested directly in securities in which the exchange traded fund invests.

**Event Risk** – is the risk that a natural disaster, takeover, corporate restructuring or regulatory change will impact the ability of the issuer to make interest and principal payments.

**Extension Risk** – is the risk that borrowers could pay back the principal on certain debt securities such as mortgage-backed securities or asset-backed securities more slowly than expected thus lengthening the average life of such securities. This could cause the value of such securities to be more volatile or decline more than other fixed income securities and may magnify the effect of a rate increase on the price of such securities. This could also affect securities of companies such as mortgage REITs who invest in these securities.

**Foreign Securities Risk** – is the risk of investing in foreign securities; it typically involves more risks than investing in U.S. securities, and includes risks associated with political and economic developments, different legal systems or practices, trading practices, availability of information, limited markets, and currency exchange rate fluctuations and policies. While AAM does not currently include non-US Dollar denominated securities within its discretionary strategies, currency exchange rate fluctuations and policy-related risks still apply. Even if a strategy does not invest in foreign securities, certain of these risks also apply to securities of U.S. companies with significant foreign operations. Certain of these risks may also apply to companies that have incorporated in a foreign jurisdiction, but maintain substantial U.S. domestic operations as well as companies domiciled abroad that issue US Dollar denominated securities which are included in an index. These risks increase the potential for losses.

**Government Sponsored Entities Risk** – is the risk that investments in debt securities issued by U.S. government sponsored entities such as the Federal National Mortgage Association, the Federal Home Loan Mortgage Association, and the Federal Home Loan Banks are not backed by the full faith and credit of the U.S. government. With respect to these entities, the investor must look principally to the agency or instrumentality issuing or guaranteeing the obligation for ultimate repayment, which agency or instrumentality may be privately owned. There can be no assurance that the U.S. government would provide financial support to its agencies or instrumentalities (including government-sponsored enterprises) where it is not obligated to do so.

**Inflation Risk** – is the risk that inflation will erode the purchasing power of the value of securities held by the account or the value of dividends for the account. Fixed-rate debt

and preferred equity securities may be more susceptible to this risk than floating-rate debt securities or common equity securities, whose value and dividends may increase in the future.

**Interest Rate and Yield Curve Risk** – is the risk that the value of a debt security or fixed income obligation, and in some cases equity securities that have a large component of expected return from current income, will be affected by a change in market interest rates and the market interest rate structure. Generally, when interest rates rise, the value of such a security or obligation decreases. Conversely, when interest rates decline, the value of such a security generally increases. Long-term fixed income obligations are generally more sensitive to interest rate changes. When market interest rates have been high or low for quite some time, an upward or downward movement in interest rates could be sudden and not well anticipated by the market or AAM or both. Rate changes or rate structure changes resulting from government action and changes in fiscal or monetary policy change could have a swift and significant impact on fixed income securities, including falling market values and reduced liquidity. Substantial redemptions from bond, income funds and other investors may worsen that impact. Other types of securities also may be adversely affected from an increase in interest rates.

**Leverage Risk** – is the additional risk associated with strategies that borrow funds or engage in securities lending to purchase additional securities. Use of leverage may lead to additional income and capital gains, but may also lead to greater portfolio volatility and risk of loss. AAM carefully monitors and constrains its use of leverage, and only engages in leverage transactions when suitable for the particular client.

**Liquidity Risk** – is the risk that due to trading volume, lack of a market maker or legal restrictions the ability to sell particular securities at an advantageous price or a timely manner is negatively impacted. The recent increase in capital requirements and potential for increased regulation can negatively impact market liquidity going forward. In the event certain securities experience limited trading volumes, the prices of such securities may display abrupt or erratic movements at times. In addition, it may be more difficult to buy and sell significant amounts of such securities without an unfavorable impact on prevailing market prices. As a result, these securities may be difficult to sell at a favorable price at the times when the manager believes it is desirable to do so. Investment in securities that are less actively traded (or over time experience decreased trading volume) may restrict the ability to take advantage of other market opportunities.

**Market Risk** – is the risk that the value of the instruments in which an account invests may go up or down in response to the prospects of individual companies, particular industry sectors or governments and/or general economic conditions. Securities are subject to

adverse trends in the overall market. Securities are subject to price movements due to changes in general economic conditions, the level of prevailing interest rates, investor perceptions of the market and defaults or volatility in securities not held by a strategy but that impact general market trends and conditions. Market prices of equity securities generally are more volatile than debt securities. Global economies and financial markets are becoming increasingly interconnected, which increases the possibilities that conditions in one country or region may adversely affect issuers in another country or region, which in turn may adversely affect securities held by the strategy. These circumstances have also decreased liquidity in some markets and may continue to do so. Market risk may affect a single issuer or the market as a whole. In addition, market risk may affect a specific strategy. As a result, an account may underperform the market as a whole.

**Manager Risk** – is the risk that a specific independent investment manager underperforms their assigned benchmark or loses money. Risks related to a specific independent investment manager are described in more detail by each independent investment manager recommended by AAM as part of the Asset Allocation Advisory service.

**Municipal Securities** – is the risk associated with investments in municipal securities which include the risk of bankruptcy of the issuer or inability to generate sufficient revenues to repay the obligation.

**Non-Government Securities Risk** – is the risk that payments on a non-government security will not be made when due, or the value of such security will decline, because the security is not issued or guaranteed as to principal or interest by the U.S. Government or by agencies or authorities controlled or supervised by and acting as instrumentalities of the U.S. Government. The risk of non-payment by the issuer of any non-agency security increases when markets are stressed.

**Prepayment Risk** – is the risk that falling interest rates could cause prepayments of mortgage-related or other securities to occur more quickly than expected. This occurs because, as interest rates fall, more property owners refinance the mortgages underlying these securities. Fixed income securities with call provisions may also be prone to being called during periods of falling interest rates. The account reinvests the prepayments or call proceeds at a time when interest rates on new mortgage investments or other fixed income securities are falling, reducing the income to the account. In addition, when interest rates fall, prices on mortgage-related securities may not rise as much as for other types of comparable debt securities because investors may anticipate an increase in mortgage prepayments.

**Reinvestment Risk** – is the risk that income will decline if the strategy reinvests the proceeds of matured or sold securities at market interest rates that are below its portfolio earnings rate.

**Structured Securities Risk** – is the risk of participation in revenue and loss or repayment of principal when certain conditions are experienced by the underlying assets. This risk will vary with each tranche of a given structured security and will depend on the provisions of the instrument.

**Volatility Risk** – is the risk that a change in the expected yield volatility on a fixed income security with embedded call or put options will impact the price of the fixed income security.

## **Item 9 – Disciplinary Information**

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Registered investment advisers are required to disclose facts regarding any legal or disciplinary events that they believe would be material to a Client’s or a potential Client’s evaluation of AAM or the integrity of AAM’s management. AAM has no reportable disclosures regarding legal or disciplinary events.

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

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Neither AAM nor any of its affiliates is registered, nor do they have an application pending to register, as a broker-dealer or a registered representative of a broker-dealer. Neither AAM nor any of its affiliates is registered, or has an application pending to register, as a futures commission merchant, commodity pool operator, a commodity trading advisor, or an associated person of the foregoing entities.

As mentioned in Item 4 – Advisory Business above, AAM is under common control with Blue Cross, a Minnesota non-profit health service plan corporation and MII Life, Incorporated, a Minnesota licensed life insurance company. Certain executives of Blue Cross are involved in the management of AAM’s business or serve on AAM’s board. Certain executives and directors of MII Life, Incorporated, are involved in the management of AAM’s business or serve on AAM’s board. AAM has entered into Administrative Service Agreements with Blue Cross as well as another affiliate, Stella Resources Company (“SRC”), for Blue Cross and SRC to provide staff, facilities and other administrative service. All of AAM’s directors, officers and staff are employees of Blue Cross or SRC.

AAM has been hired to provide advisory services to their affiliate entities, which could create a conflict of interest in that AAM could have an incentive to affiliate Clients over other Clients. This is mitigated by internal policies and internal controls related to order aggregation, allocation and trading that are supervised as a part of its compliance program.

AAM is the sub-adviser to the ETF. AAM will recommend investment in the ETF to its clients when it believes it is appropriate for an allocation to a short-term cash alternative product, including but not limited to an allocation in our Asset Allocation Advisory Services or within one of our Discretionary Investment Management Fixed Income strategies. When an allocation is made, AAM will waive the management fee or asset allocation advisory fee on amounts invested in the ETF because we receive a fee for acting as sub-adviser to the ETF. AAM will continually monitor the market and document alternative funds available for investment. AAM requests Clients consent:

- (1) To our receipt of fees from investments in the ETF
- (2) Consent may be revoked at any time
- (3) The maximum amount of a Client's investment in the ETF
- (4) The criteria used to determine whether an investment is in the client's best interest

AAM does not have other business relationships with advisers that create material conflicts of interest.

## **Item 11 – Code of Ethics**

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AAM has adopted a Code of Ethics for all supervised persons of AAM describing its high standard of business conduct and fiduciary duty to Clients. The Code of Ethics includes provisions relating to the confidentiality of Client information, a prohibition on insider trading and personal securities trading procedures. All supervised persons at AAM must acknowledge the terms of the Code of Ethics annually, or as amended.

The Code of Ethics is designed to assure that the personal securities transactions, activities and interests of the employees of AAM 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 of Ethics, certain classes of securities have been designated as exempt transactions, based upon a determination that these would materially not interfere with the best interest of AAM's Clients. The Code of Ethics requires pre-clearance of some types of transactions.

Supervised persons may invest in the same securities as those recommended to clients, including the ETF, creating a potential conflict of interest where AAM or its supervised persons could be incented to place their orders before those of clients to take advantage of potential price movements



or could be incented not to recommend the sale of securities in order to protect the value of an existing personal investment. On occasions when supervised persons transact in the same securities as those recommended to clients, including the ETF, the supervised persons are required to obtain pre-clearance from the Chief Compliance Officer.

Trading by access persons is continually monitored under the Code of Ethics, and to reasonably prevent conflicts of interest.

AAM's Clients or prospective Clients may request a copy of the AAM's Code of Ethics by contacting AAM via email at [info@awareassetmgmt.com](mailto:info@awareassetmgmt.com).

## **Item 12 – Brokerage Practices**

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### **Factors Considered in Selecting Broker-Dealers**

AAM is responsible for selecting the broker-dealer to execute all Client transactions. Purchases and sales of securities for Clients are made in accordance with the investment objectives, strategies and policies of each Client. It is AAM's policy to seek best execution on behalf of its Clients – that is, AAM seeks to achieve the best overall qualitative execution for a Client in a particular circumstance. "Best execution" is not synonymous with the lowest brokerage commission, lowest trading cost or the best price level. Consequently, in a particular transaction a Client may pay a brokerage commission or incur trading costs in excess of that which might have been paid or incurred through another broker executing the same transaction. A trade is not always executed at the most advantageous price level. AAM has a best execution policy which describes practices used to seek best execution and outlines how execution is monitored. The results of execution review are reported and reviewed at least annually by senior management.

### **Determining Reasonableness of Commissions and Trading Costs**

AAM may, consistent with its obligation to seek best execution, effect securities transactions with a broker which cause Clients to pay the broker commissions or incur trading costs in excess of the commissions charged by or trading costs incurred through another broker. When purchasing certain securities in the secondary market, AAM does not necessarily solicit competitive offers from multiple brokers or seek the lowest available trading cost, but rather bases the purchasing decision on the overall value of offers presented compared with the pricing levels of the broader market. When selling securities, AAM will seek competitive bids, although the highest bid may not result in the lowest available trading cost. Although AAM will make a good faith determination that the amount of trading costs is reasonable, commission rates and certain other components of trading costs are generally negotiable and selecting brokers on the basis of considerations that are not limited to the commission rates may result in higher trading costs than would otherwise be obtainable.

## **Soft Dollar Practices and Brokerage for Client Referrals**

AAM does not use Client brokerage commissions to obtain research or other products or services from broker-dealers. As a result, AAM believes this creates a more conflict-free trading environment for its Clients. AAM also does not receive referrals of Clients from any broker-dealers with whom it engages in trading.

### **Aggregation of Client Trades**

AAM aggregates purchases and sales of securities for multiple Clients as described below. AAM will not aggregate trades unless AAM believes that aggregation is consistent with its duty to seek best execution and is consistent with the terms of the investment management agreement with each Client for which trades are being aggregated. The aggregation of trades permits the trading of blocks of securities from multiple Clients' accounts. Aggregation generally allows execution of transactions in a more timely and efficient manner, and may reduce overall execution costs and impact on the market price of the underlying securities. AAM seeks to ensure that no advisory account is systematically disadvantaged over any other advisory account relative to available investment opportunities within the account's strategy and other limitations.

Clients participating in aggregated trades will be allocated securities based on the original order, and will receive the lot price for fixed income orders or the average total price for ETF orders. Generally, with respect to partially filled orders, participants will receive pro-rata allocations of the securities at the lot price from each of the lots that complete the full order for fixed income orders, or the average total price for ETF orders. Allocations of partially filled fixed income orders may be impacted by security specific considerations like minimum lot, minimum piece, de minimis execution and other factors. The trade allocation logic is imbedded within AAM's trader order management system. Clients will share in any applicable transaction costs pro rata based on the account's allocated order size. AAM 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.

### **Aggregation with Affiliated Accounts**

Certain affiliated accounts may trade in the same securities with Client accounts on an aggregated basis when consistent with AAM's obligation of best execution. In such circumstances, AAM will follow the procedure described above for aggregated orders and retain records documenting any deviation from the procedure.

### **Trade Errors**

In the event any error occurs in the handling of any transaction due to AAM actions, or inaction, or actions of others, AAM policy is to seek to identify and correct any errors as promptly as possible without disadvantaging the account under discretionary management or benefiting AAM

in any way. If the error is the responsibility of AAM, any transaction will be corrected and AAM will be responsible for the loss resulting from an inaccurate or erroneous order. AAM monitors and reviews all trade errors.

### **Item 13 – Review of Accounts**

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Investment Manager(s) review Client accounts on a continuous basis. This review involves assessing various attributes of each account, including portfolio guidelines and characteristics, asset values, changes in gains and losses, credit ratings and portfolio structure.

AAM provides written account reports to Clients monthly or quarterly, depending on the particular arrangement with each Client. Matters covered by the reports are as requested by the Client and generally include asset values, performance, performance attribution, transactions and holdings, and may include sector concentrations, yield curve exposure, portfolio structure, the account's portfolio guidelines and guideline compliance.

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

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AAM may enter into an agreement whereby the AAM pays a referral fee to a third party that solicits prospective Clients on its behalf in compliance with Rule 206(4)-3 under the Investment Advisers Act. Currently, AAM has no placement agents acting for its benefit.

### **Item 15 – Custody**

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Clients agree to maintain a segregated custody account with regard to the investment assets managed according to their Investment Management Agreement with AAM. AAM does not act as a qualified custodian for Client accounts and, in the normal course of its duties, does not take physical custody or control of Client assets. Clients should receive at least quarterly statements from the qualified custodian that holds and maintains their investment assets. AAM urges careful review of such statements and the comparison of such official custodial records to the account reports that may be provided by AAM. Our reports may vary from custodial statements based on accounting procedures, reporting dates, or valuation methodologies of certain securities. If a Client does not receive custodial statements, the Client should contact his or her AAM account representative. We will work with the Client and the Client's custodian to ensure that the Client receives this information. The services and fees of such a qualified custodian are separate from our fees.

Due to the nature of the affiliate relationship with certain Clients, AAM may be deemed to have custody under Rule 206(4)-2 of the Investment Advisers Act. With respect to these relationships, AAM has implemented the following custody controls:

- Reasonable due inquiry to verify that the qualified custodian provides clients with at least quarterly account statements;
- Internal policies and procedures and other controls designed to prevent and mitigate AAM or its employees having unauthorized access to Client assets; and
- Annual surprise examinations by an independent public accountant to verify the existence of client assets.

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

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AAM has full discretionary authority with respect to investment decisions, in accordance with the Investment Management Agreement which is executed at the outset of an advisory relationship. AAM's full discretion includes the authority to select the identity and amount of securities to be bought or sold. In all cases, however, such discretion is to be exercised in a manner consistent with the Investment Policy Statement, as may be amended from time to time by the Client. When selecting securities and determining amounts, AAM observes the investment policies, limitations and restrictions of each Client.

AAM may also provide non-discretionary services related to asset allocation and the ongoing selection and monitoring of external managers for investment assets held outside of the AAM discretionary investment management relationship.

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

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AAM has the authority to vote corporate proxies and other corporate actions on behalf of Clients. AAM will generally vote proxies relating to routine matters consistent with the recommendations of the company's management unless it determines that it is in the best interest of the Clients to do otherwise. Routine matters include, without limitation, routine election of directors (where no corporate governance issues are implicated), the selection of auditors and increases of common stock. For all non-routine matters, AAM will consider the proxy proposal on a case-by-case basis taking into account various factors, including the analysis, research and recommendation provided by a third party proxy service, whether the proposal was recommended by management and other factors it deems relevant.

AAM may abstain from voting if, based on factors such as expense or difficulty of exercise, it determines that interests are better served by not voting.

In the event that a conflict of interest is identified in connection with voting a particular proxy, a special committee will be assembled and determine the appropriate actions with respect to voting the proxy.

Clients may obtain a copy of AAM's complete proxy voting policies and procedures upon request. Clients may also obtain information from AAM about how AAM voted any proxies on behalf of their account(s).

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

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AAM is not required to include a balance sheet for its most recent fiscal year, has no financial commitment that impairs its ability to meet contractual and fiduciary commitments to Clients, and has not been the subject of any bankruptcy proceeding.