

# BAKER ASSET MANAGEMENT LLC

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This brochure provides information about the qualifications and business practices of Baker Asset Management LLC. If you have any questions about the contents of this brochure, please contact us at 405-415-7270. 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.

Baker Asset Management LLC is an Investment Adviser registered with the appropriate regulatory authority. 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 any information about which you determine to hire or retain an Adviser.

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

## **Item 2-Material changes**

This Brochure is prepared in the revised format required beginning in 2011. Registered Investment Advisers are required to use this format to inform clients of the nature of advisory services provided, types of clients served, fee charged, potential conflicts of interest and other information. The Brochure requirements include the annual provision of a Summary of Material Changes (the "Summary") reflecting any material changes to our policies, practices, or conflicts of interest made since our last required "annual update" filing. In the event of any material changes, such Summary is provided to all clients within 120 days of our fiscal year-end. Our last annual update was filed on March 24, 2015. Of course the complete Brochure is available to clients at any time upon request.

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## Item 4- Advisory Business

Baker Asset Management LLC ("BAM") was registered in 2005, and acts primarily as advisor to individual clients and their retirement accounts, institutional accounts, including trusts, estates, pension and profit sharing plans, bank holding companies and corporations and other business entities.

James Baker Group Inc. is the sole principal owner of BAM. Please see **Brochure Supplement**, Exhibit A, for information regarding individuals who formulate advice and have direct contract with clients, or have discretionary authority over client accounts.

As of December 31, 2016, BAM managed \$190 million on a discretionary basis, and \$5 million of assets on a non-discretionary basis.

At the outset of each client relationship, BAM spends time with the client asking questions, discussing the client's investment experience and financial circumstances, and broadly identifying major goals of the client. Based on these discussions, an Investment Policy Statement is developed, which outlines the overall investment plan for the client.

To implement the client's investment plan, BAM will manage the client's investment portfolio on a discretionary basis and under BAM's Wrap Program, described more fully in **Item 5, Fees and Compensation** and **Appendix 1, Wrap Fee Program Brochure**. As a discretionary investment adviser, BAM will have the authority to supervise and direct the portfolio without prior consultation with the client.

Notwithstanding the foregoing, clients may impose certain written restrictions on BAM in the management of their investment portfolios, such as prohibiting the inclusion of certain types of investments in an investment portfolio or prohibiting the sale of certain investments held in the account at the commencement of the relationship. Each client should note, however, that restrictions imposed by a client may adversely affect the composition and performance of the client's investment portfolio. Each client should also note that his or her investment portfolio is treated individually by giving consideration to each purchase or sale for the client's account. For these and other reasons, performance of client investment portfolios within the same investment objectives, goals, and/or risk tolerance may differ and clients should not expect that the composition or performance of their investment portfolios would necessarily be consistent with similar clients of BAM.

## **Item 5- Fees and Compensation**

BAM sponsors the BAM Wrap Fee Program, which combines management fees and certain brokerage expenses. Advisory fees for all advisory clients are asset-based on the portfolio valuation as shown by the following scale. The wrap fees are calculated and payable in arrears, based upon the three-month average of client's portfolio valuation (all sub-accounts) on the last day of each month during the calendar quarter (the "Average Portfolio Valuation") and multiplied by the percentage applicable to the client's Average Portfolio Valuation (with a minimum annual Advisor's fee of \$100). The wrap fee shall include all investment advisory, custodial, brokerage and administrative services provided. The wrap fee does not include (i) underwriting or dealer concessions or related compensation in connection with securities acquired in underwritten offerings, where the offering price is established by prospectus or other offering documents, (ii) certain odd-lot differentials, transfer taxes, redemption fees and fees mandated by the Securities Act of 1934, postage and handling fees, wire fees, clearing firm transaction fees and expenses of mutual funds (including money market funds), closed-end investment companies or other managed investments, if any are held in the client's account. The fee does not cover securities transactions in the over-the-counter market when the firm must approach a dealer or market maker to purchase or sell a security, including the dealer's mark-up, mark-down or spread and odd-lot differentials or transfer taxes imposed by law. Inasmuch as BAM pays to the executing broker/dealer the transaction and execution costs associated with client accounts, this may create a disincentive for BAM to trade securities in accounts.

Depending on individual client circumstances, accounts may be subject to a one-time non-refundable start-up fee. This is generally reserved for cases which require an excessive amount of trading to initiate management of the portfolio. Such start-up fee is negotiated and agreed upon when the client engages BAM.

BAM may, at its discretion, make exceptions to the foregoing or negotiate special fee arrangements where BAM deems it appropriate under the circumstances.

If management begins after the start of a quarter, fees will be prorated accordingly. With client authorization, unless other arrangements are made fees are normally debited directly from client account(s).

Either BAM or the client may terminate their Investment Management Agreement at any time, subject to any written notice requirements in the agreement. In the event of termination, any paid but unearned fees will be promptly refunded to the client based on the number of days that the account was managed, and any fees due to BAM from the client will be invoiced or deducted from the client's account prior to termination.

The following represents BAM's annual fee schedules, based on the types of holdings in the account:

#### **Cash/Mutual Funds**

0	1,000,000	1.00%
1,000,000	5,000,000	.90%
5,000,000	10,000,000	.75%
Over \$10,000,000		Negotiable

#### **Fixed Income**

0	1,000,000	.50%
1,000,000	5,000,000	.40%
5,000,000	10,000,000	.25%
Over \$10,000,000		Negotiable

#### **Equities/Options/Closed End Funds**

0	250,000	2.00%
250,000	500,000	1.50%
500,000	1,000,000	1.00%
1,000,000	5,000,000	.75%
Over \$5,000,000		Negotiable

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

Baker Asset Management LLP does not charge any performance-based fees (fees based on a share of capital gains or capital appreciation of the assets of a client).

### **Item 7- Types of Clients**

Baker Asset Management LLC provides portfolio management services to individuals, high net worth individuals, corporate pension and profit-sharing plans, charitable institutions, and foundations.

### **Item 8- Methods of Analysis, Investment Strategies & Risk of Loss**

*Investment Management Process*

### Methods of Analysis

BAM purchases independent research products and services that assist in evaluating and selecting the most appropriate mutual funds, ETF's, closed-end funds, and individual stocks for its clients. Mutual funds and ETF's are generally evaluated and selected based on a variety of factors, including, as applicable and without limitation, past performance, expense structure, portfolio manager, overall ratings for safety and return, and other factors.

In making selections of individual stocks for client portfolios, BAM will generally utilize fundamental analysis. This involves review of the business and financial information about the company and industry. Without limitation, the following factors generally will be considered:

- Business Strategy
- Financial strength
- Price-to-earnings ratios
- Dividend yields; and
- Cash Flow yields

Fixed income investments may be used as a strategic investment, as an instrument to fulfill liquidity or income needs in a portfolio, or to add a component of capital preservation. BAM will generally evaluate and select individual bonds or bond funds based on a number of factors including, without limitation, rating, yield, expense structure, and duration.

### Investment Strategies

As described in Item 4, BAM develops an individual Investment Policy Statement that specifies the client's investment objectives and constraints (risk tolerance) and then selects securities based on this asset allocation. BAM's aim is to communicate to each client on at least a quarterly basis the results of the portfolio compared to the client's long-term goals and objectives.

### ***Investment Policy Statement***

By means of a client profile questionnaire and personal interviews with the client, BAM will define the client's investment objectives in terms of expected total return (capital gains and current income) and risk tolerance. The process will also address investment constraints, including but limited to:

- Liquidity needs- short term obligations
- Time horizons- anticipated holding periods
- Tax considerations- taxable versus non-taxable investments
- Regulatory and Legal- governing requirements for Trusts, Pension, and other qualified retirement plans
- Unique needs and preferences



These findings will provide a basis for strategy for the client portfolio, as well as providing the structure for evaluating investment performance.

### ***Asset Allocation***

A risk category is assigned to each client that determines the mix of invested assets. Typically, the portfolios of the more aggressive investors are weighted with a bias toward U. S. and foreign equities. More conservative investors are placed in fixed-income and short-term money market instruments as well. The allocation decision is applied to the client's aggregate holdings, including taxable and non-taxable accounts, to achieve proper diversification.

### ***Security Selection***

Client portfolios are invested in the shares of open-end investment companies (mutual funds), exchange-traded funds (ETFs) and exchange-traded unit investment trusts (UITs). BAM also utilizes shares of closed-end funds and individual bonds and common stocks.

BAM considers that mutual funds provide an effective and cost-effective means of achieving equity exposure in an investment portfolio.

Because there are many open-end mutual funds available, BAM monitors the style and investment objective of all client-invested funds and makes portfolio rebalancing decisions based on the relative strengths of a particular fund and/or investment style. The final outcome is that the investment objective of the client is met, regardless of the given fund mix at any time. Because fund managers seldom concentrate on all styles and categories, a selection of funds can be utilized to meet the client's needs.

Balanced portfolios are built by combining individual debt securities with equity securities. Those selected for the clients are typically purchased on the secondary market. Diversification among issuers and quality are selected based on the client's needs.

### ***Monitoring and Re-balancing of Portfolios***

The clients' needs may change that mandate the re-evaluation of their investment requirements. Each investment portfolio is reviewed on a regular basis to adjust portfolio positions. The following factors play a part in the necessity to review and adjust:

- Change in client risk profile
- Significant contribution or withdrawal of funds
- Changes in market conditions or security selection



BAM uses a strategic asset allocation, known as a constant mix strategy, for most portfolios. Change in asset value over time causes the need to periodically re-balance the portfolio to maintain the desired portfolio weight.

### ***Measurement and Reporting***

BAM utilizes a portfolio management system to manage client assets. The clients receive clear and concise reports at the end of each quarter in which their portfolio performance is measured against the following key indicators:

Barclays Aggregate Index- is composed of the Barclays Government/Corporate Index, the Mortgage-Backed Securities Index, and the Asset-Backed Securities Index. The figure is a one-month total return

Standard & Poor's 500 Index—is a market capitalization-weighted index of 500 widely held stocks. It measures the movement of the largest issues. S&P chooses the member companies for the 500 based on market size, liquidity and industry group representation.

### **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 Baker Asset Management LLC or the integrity of Baker Asset Management LLC management. Baker Asset Management LLC has no information applicable to this Item.

### **Item 10- Other Financial Industry Activities & Affiliations**

Baker Asset Management LLC is affiliated, through common ownership, with James Baker Group.

### **Item 11- Code of Ethics**

Baker Asset Management LLC is affiliated through common ownership with James Baker Group.

From time to time, recommendations may be made to clients for securities in which the broker/dealer, its officers and/or employees may have incidental long or short positions.

Because the investment objectives and personal circumstances of those persons may differ from those of Baker Asset Management's clients, the timing of such transactions may not coincide with the timing of portfolio transactions for clients

Baker Asset Management is mindful of its fiduciary duties and will not deprive its clients or appropriate to its own advantage, investment opportunities that are suitable for client accounts.

Baker Asset Management LLC's advisory clients or prospective clients may request a copy of the firm's Code of Ethics by contacting Robert Todd Owens, President.

## **Item 12- Brokerage Practices**

BAM participates in the Fidelity Institutional Wealth Services ("FIWS") program. While there is no direct link between the investment advice BAM provides and participation in the FIWS program, BAM receives certain economic benefits from the FIWS program. These benefits may include software and other technology that provides access to client account data (such as trade confirmation and account statements), facilitates trade execution (and allocation of aggregated orders for multiple client accounts), provides research, pricing information and other market data, facilitates the payment of BAM's fees from its clients' accounts, and assists with back-office functions, recordkeeping and client reporting. Many of these services may be used to service all or a substantial number of BAM's accounts, including accounts not held at Fidelity. Fidelity may also make available to BAM other services intended to help BAM manage and further develop its business. These services may include consulting, publications and conferences on practice management, information technology, business succession, regulatory compliance and marketing. In addition, Fidelity may make available, arrange and/or pay for these types of services to be rendered to BAM by independent third parties. Fidelity may discount or waive fees it would otherwise charge for some of these services, pay all or a part of the fees of a third-party providing these services to BAM, and/or Fidelity may pay for travel expenses relating to participation in such training. Finally, participation in the FIWS program provides BAM with access to mutual funds which normally require significantly higher minimum initial investments or are normally available only to institutional investors.

The benefits received through participation in the FIWS program do not necessarily depend upon the proportion of transactions directed to Fidelity. The benefits are received by BAM, in part because of commission revenue generated for Fidelity by BAM's clients. This means that the investment activity in client accounts is beneficial to BAM because Fidelity does not assess a fee to BAM for these services. This creates an incentive for BAM to continue to recommend Fidelity to its clients. While it may be possible to obtain similar custodial, execution and other services elsewhere at a lower cost, BAM believes that Fidelity provides an excellent combination of these services. These services are not soft dollar arrangements, but are part of the institutional platform offered by Fidelity.

## Directed Brokerage

Clients may direct BAM to use a particular broker for custodial or transaction services on behalf of the client's portfolio. In directed brokerage arrangements, the client is responsible for negotiating the commission rates and other fees to be paid to the broker. Accordingly, a client who directs brokerage should consider whether such designation may result in certain costs or disadvantages to the client, either because the client may pay higher commissions or obtain less favorable execution, or the designation limits the investment options available to the client.

The arrangement that BAM has with Fidelity is designed to maximize efficiency and to be cost effective. By directing brokerage arrangements, the client acknowledges that these economies of scale and levels of efficiency are generally compromised when alternative brokers are used. While every effort is made to treat clients fairly over time, the fact that a client chooses to use the brokerage and/or custodial services of alternative service providers may in fact result in a certain degree of delay in executing trades for their account(s) and otherwise adversely affect management of their account(s).

By directing BAM to use a specific broker or dealer, clients who are subject to ERISA confirm and agree with BAM that they have the authority to make the direction, that there are no provisions in any client or plan document which are inconsistent with the direction, that the brokerage and other goods and services provided by the broker or dealer through the brokerage transactions are provided solely to and for the benefit of the client's plan, plan participants and their beneficiaries, that the amount paid for the brokerage and other services have been determined by the client and the plan to be reasonable, that any expenses paid by the broker on behalf of the plan are expenses that the plan would otherwise be obligated to pay, and that the specific broker or dealer is not a party in interest of the client or the plan as defined under applicable ERISA regulations.

## Aggregated Trade Policy

BAM may enter trades as a block where possible and when advantageous to clients whose accounts have a need to buy or sell shares of the same security. This method permits the trading of aggregate blocks of securities composed of assets from multiple client account. It allows BAM to execute trades in a timely, equitable manner, and may reduce overall costs to clients.

BAM will only aggregate transactions when it believes that aggregation is consistent with its duty to seek best execution (which includes the duty to seek best price) for its clients, and is consistent with the terms of BAM's Investment Advisory Agreement with each client for which trades are being aggregated. No advisory client will be favored

over any other client; each client that participates in an aggregated order will participate at the average share price for all BAM's transactions in a given security on a given business day. Transaction costs for participating accounts will be assessed at the custodian's commission rate applicable to each account; therefore, transaction costs may vary among accounts. Accounts may be excluded from a block due to tax considerations, client direction or other factors make the account's participation ineligible or impractical.

BAM will prepare, before entering an aggregated order, a written statement ("Allocation Statement") specifying the participating client accounts and how it intends to allocate the order among those clients. If the aggregated order is filled in its entirety, it will be allocated among clients in accordance with the Allocation Statement. If the order is partially filled, it will generally be allocated pro-rata, based on the Allocation Statement, or randomly in certain circumstances. Notwithstanding the foregoing, the order may be allocated on a basis different from that specified in the Allocation Statement if all client accounts receive fair and equitable treatment, and the reason for different allocation is explained in writing and is approved by an appropriate individual/officer of BAM. BAM's books and records will separately reflect, for each client account included in a block trade, the securities held by and bought and sold for that account. Funds and securities of clients whose orders are aggregated will be deposited with one or more banks or broker-dealers, and neither the clients' cash nor their securities will be held collectively any longer than is necessary to settle the transaction on a delivery versus payment basis; cash or securities held collectively for clients will be delivered out to the custodian bank or broker-dealer as soon as practicable following the settlement, and BAM will receive no additional compensation or remuneration of any kind as a result of the proposed aggregation.

### **Item 13- Review of Accounts**

Accounts generally are reviewed by management, on at least a quarterly basis. When market conditions, economic events or individual issuers prompt immediate review, accounts are reviewed more frequently and may be subject to daily monitoring. This is an ongoing process of analysis to ensure that client objectives are being met and tactical adjustments can be made to respond to changing market conditions. Reviews are focused on performance, asset allocation, investments, diversification and the general positioning of the accounts in light of fundamental and technical forces at work in the marketplace.

Investment advisory accounts receive quarterly Statements of Performance from the firm. Supervised accounts will receive statements of activity on at least on a quarterly basis, reflecting cash and securities positions, market value and the change in value for the total portfolio from the previous period from the custodian.

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

We do not directly or indirectly compensate any third parties for client referrals.

## **Item 15- Custody**

Fidelity is the custodian of nearly all client accounts at BAM. From time to time however, clients may select an alternate broker to hold accounts in custody. In any case, it is the custodian's responsibility to provide clients with confirmation of trading activity, tax forms and at least quarterly account statements. Clients are advised to review this information carefully, and to notify BAM of any questions or concerns. Clients are also asked to promptly notify BAM if the custodian fails to provide statements on each account held.

From time to time and in accordance with BAM's agreement with clients, BAM will provide additional reports. The account balances reflected on these reports should be compared to the balances shown on the brokerage statements to ensure accuracy. At times there may be small differences due to the timing of dividend reporting, pending trades or other similar issues.

## **Item 16- Investment Discretion**

Baker Asset Management LLC usually receives discretionary authority from the client at the outset of an advisory relationship 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 stated objectives for the particular client account.

When selecting securities and determining amounts, Baker Asset Management LLC observes the investment policies, limitations and restrictions of the clients for which it advises.

Investment guidelines and restrictions must be provided to Baker Asset Management LLC in writing.

## **Item 17- Voting Client Securities**

Accounts not subject to ERISA: Advisor will not vote any proxies for securities or exercise voting rights pertaining to investments in the Account (including without limitation matters relating to conversions, exchanges, mergers, stock splits, rights offerings, recapitalizations and reorganizations) unless directed in writing by Client to do so.

Accounts subject to ERISA: Unless client directs Advisor in writing to the contrary, or the documents of an employee benefit plan reserves the right to vote proxies to the

plan's trustees or named fiduciary, Advisor will vote all proxies for securities and exercise voting rights pertaining to investments in the Account (including without limitation matters relating to conversions, exchanges, mergers, stock splits, rights offerings, recapitalizations and reorganizations).

Advisor will not be responsible or liable for failing to vote any proxies where it has not received such proxies or related communications on a timely basis from the custodian.

### **Item 18- Financial Information**

Registered investment advisers are required in this item to provide you with certain financial information or disclosures about Baker Asset Management LLC's financial condition if they have custody of clients funds or securities or require prepayment of more than \$1200 in fees six months or more advance or if the adviser has been the subject of a bankruptcy during the past ten years. Baker Asset Management LLC does not require or solicit prepayment of fees six months or more in advance. We have not been the subject of a bankruptcy petition.