

Item 1      Cover Page

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Advisory Research, Inc.  
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(312) 565-1414  
[www.AdvisoryResearch.com](http://www.AdvisoryResearch.com)

Brochure Date: March 31, 2011

This Brochure provides information about the qualifications and business practices of Advisory Research, Inc. ("ARI"). If you have any questions about the contents of this Brochure, please contact us at (312) 565-1414. 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.

ARI is a registered investment adviser. Registration of an Investment Adviser does not imply any level of skill or training. Additional information about ARI is also available on the SEC's website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).

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## Item 2      Material Changes

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On July 28, 2010, the U.S. Securities and Exchange Commission published “Amendments to Form ADV” which amends the disclosure document that we provide to our clients as required by SEC Rules. This Brochure, dated March 31, 2011, is a new document prepared according to the SEC’s new requirements and rules. As such, this Document is different in structure and requires certain new information that our previous brochure did not require.

In the future, this section will discuss only specific material changes that are made to the Brochure and provide clients with a summary of such changes. We will also reference the date of our last annual update of our brochure.

In the past we have offered or delivered information about our qualifications and business practices to our clients on at least an annual basis. Pursuant to new SEC Rules, we will ensure that you receive a summary of any materials 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. We will provide you with a new Brochure as necessary based on changes or new information, at any time, without charge.

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## Item 4 Advisory Business

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**A. Background and Ownership.** Advisory Research, Inc. (ARI) was founded in 1974, and is a wholly-owned subsidiary of Piper Jaffray Companies, a publicly traded company listed on the NYSE trading under the symbol PJC.

**B. Description of Services and Schedule of Fees.**

1. Types of Services. ARI primarily manages investments with discretionary authority on behalf of clients (1) directly (primarily through investments in equities and bonds), (2) through various multi manager and wrap fee programs for which ARI serves as a sub-advisor, and (3) through the use of commingled investment or mutual funds, based on the goals and objectives of each individual client ("Management Services").

From time to time, ARI may also advise clients in the selection of investment advisers and in the selection of professionally managed investment pools (such as mutual funds, common trust funds, and collective trust funds) ("Advisory Services"). Additionally, in selected cases, ARI may also provide consulting for strategic investment planning to separate clients who may not be receiving investment advice in the manner described above. A flat fee is typically charged for this consulting service.

In limited situations, ARI provides nondiscretionary management of advisory accounts pursuant to nondiscretionary model UMA agreements ("Model Services").

2. Types of Investments. ARI primarily invests in equities (including U.S. and foreign) and bonds (including corporate, municipal and government-issued) for its clients. From time to time, investments may also include warrants, certificates of deposit, options contracts, commercial paper, investment company securities, futures contracts on securities, convertible securities and interests in private limited partnerships managed by ARI.

**C. Individualized Services.** ARI seeks to provide advisory services that are tailored to the individual needs of each client. As a result, clients may impose restrictions on investing in certain securities or types of securities by contacting their relationship manager and/or notifying ARI in writing.

**D. Wrap Fee Account Management.** ARI serves as a manager in various wrap fee programs sponsored by unaffiliated broker-dealers (Program Sponsor) and as a result, receives a portion of the wrap fees paid by clients for its services. Portfolio management advice provided by ARI to clients in wrap fee programs does not generally differ materially from that provided to its separately managed accounts. One area which may differ is that trades in such programs are typically placed with the program's sponsoring broker dealer because the wrap-fee arrangement covers brokerage commissions effected through the Program Sponsor. Wrap program clients should be aware that because they effectively direct ARI to execute most trades through the Program Sponsor or the broker designated by the Program Sponsor, execution quality may be

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adversely affected by various factors associated with client directed brokerage as noted in Item 12. ARI may direct that trade orders for wrap accounts and other accounts that direct the use of a particular broker-dealer be executed following the completion of trades for ARI's other accounts that do not impose such restrictions. This could have potential adverse effects or beneficial effects because of changes that may occur in the market price for affected securities or other changes, particularly in volatile markets.

- E. Assets Under Management.** As of December 31, 2010, ARI had \$6.6 billion in assets under management. Of this amount, \$6.5 were discretionary assets and approximately \$101 million were non-discretionary assets.

## Item 5 Fees and Compensation

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**Fee Overview.** Fees are calculated quarterly based on the total market value of assets under supervision, as determined as of the close of business of each quarter, and billed in arrears. In certain circumstances, such as when a client may request a customized strategy, ARI may create customized fee schedules. In addition, some clients may negotiate different fees, billing format and/or time frame. Exceptions to the general fee schedule may be made under certain circumstances depending upon the exact nature of the services to be performed or responsibilities assumed by ARI. For example, ARI may negotiate fees where a client is seeking to invest substantial amounts or is a strategic client, including those clients ARI serves as a model provider or sub-advisor, or on occasion ARI may charge a performance based fee which may result in fees generally ranging from 0.30% to 1.25% per annum. Under both customary and negotiated billing formats and time frames, it is the client's responsibility to verify the accuracy of ARI's advisory fee calculation.

**Billing Methods.** ARI will work with each client to determine their preferred billing method. In most cases ARI will generate an invoice quarterly in arrears and submit that invoice either to the client or a client's designated agent for payment. In some cases, clients may also elect to permit ARI to deduct management fees from custodial accounts electronically. In the event that ARI is permitted to deduct management fees electronically, ARI will also deliver an informational copy of the invoice to the client or his/her designated agent.

Although ARI does not bill its fees in advance, sponsors of wrap fee programs for which ARI serves as a manager may do so. In the case of a wrap fee program in which fees are billed in advance, and in the event a client's advisory contract is terminated before the end of the billing period, clients may obtain a refund of any prepaid fees from the wrap fee program's sponsor.

**Fee Schedules for Separately Managed Accounts.** The following fees are for separately managed accounts invested in the following products/styles.

**Small Cap Value Equity**

Assets Under Management  
First \$20,000,000  
Above \$20,000,000

Fee Schedule  
1.00% per annum  
0.80% per annum

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**Small / Mid Cap Value Equity**

Assets Under Management	Fee Schedule
First \$20,000,000	1.00% per annum
Above \$20,000,000	0.80% per annum

**Mid Cap Value Equity**

Assets Under Management	Fee Schedule
First \$20,000,000	1.00% per annum
Above \$20,000,000	0.80% per annum

**Large Cap Equity**

Assets Under Management	Fee Schedule
First \$5,000,000	1.00% per annum
Next \$15,000,000	0.75% per annum
Above \$15,000,000	0.50% per annum

**All Cap Value Equity**

Assets Under Management	Fee Schedule
First \$5,000,000	1.00% per annum
Next \$15,000,000	0.75% per annum
Above \$15,000,000	0.50% per annum

**International Small Cap Value Equity**

Assets Under Management	Fee Schedule
On all assets	1.35% per annum

**Fixed Income**

Assets Under Management	Fee Schedule
First \$10,000,000	0.370% per annum
Over \$10,000,000	0.275% per annum

**Mutual & Commingled Funds Under Supervision**

Assets Under Management	Fee Schedule
First \$1,000,000	1.00% per annum
Over \$1,000,000	0.50% per annum

**Notes.** Accounts managed by ARI are held in custody by a third party bank or brokerage of client's choosing. It should be noted that ARI's fees are exclusive of brokerage commissions, transaction fees, and/or other related costs and expenses which may be incurred by the client. Item 12 further describes the factors that ARI considers in selecting or recommending broker-dealers for client transactions and determining the reasonableness of their compensation (e.g., commissions). Clients may also incur charges imposed by custodians, brokers and/or other third parties, such as: custodial fees, transfer taxes, wire transfer and electronic fund fees, and other fees and taxes of brokerage accounts and securities transactions. With respect to mutual funds, exchange traded funds and other collective investment vehicles in separately managed accounts, ARI's fees are in addition to advisory fees which may be charged by such mutual funds and collective investment vehicles as per the fund's prospectus. It may be noted that ARI does not receive any portion of such charges, fees, and/or commissions.

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Additionally, no separate account fees are charged to the client with respect to assets invested in investment vehicles which are affiliated with ARI.

Where ARI acts as a sub-advisor pursuant to a wrap fee or certain multi-manager programs, fees set forth above may be discounted depending on the nature and scope of the relationship. In addition, fees charged for nondiscretionary model UMA services may be negotiated on a case-by-case basis and may also be discounted off of the above schedules.

Commingled Limited Partnerships. ARI serves as a general partner and investment manager to thirteen (13) commingled limited partnerships which generally are organized by the size of the company in which investments are made, ranging from Micro Cap to Large Cap Equity. Certain of these limited partnerships are of a more focused nature including funds that emphasize certain sectors or are based on certain indices. Management fees for these limited partnerships generally range from 0.40% to 1.50% per annum and two (2) of the partnerships also compensate ARI with a 20% Performance Allocation.

## Item 6      Performance-Based Fees and Side-by-Side Management

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ARI does not generally enter into performance fee arrangements. However, in some cases, ARI has entered into performance fee arrangements with qualified clients. In these cases, such fees are subject to individualized negotiation with each such client. ARI will structure any performance or incentive fee arrangement subject to Section 205(a)(1) of the Investment Advisors Act of 1940 (The Advisors Act) in accordance with the available exemptions thereunder, including the exemption set forth in Rule 205-3. In measuring clients' assets for the calculation of performance-based fees, ARI shall include realized and unrealized capital gains and losses. Performance based fee arrangements may create an incentive for ARI to recommend investments which may be riskier or more speculative than those which would be recommended under a different fee arrangement. Such fee arrangements also create an incentive to favor higher fee paying accounts over other accounts in the allocation of investment opportunities. ARI has implemented procedures designed to ensure that all clients are treated fairly and equally, and to prevent this conflict from influencing the allocation of investment opportunities among clients.

- Accounts within a strategy are generally managed to the strategy's model portfolio.
- ARI regularly reviews each investment strategy's model portfolio versus individual client accounts. In this review, position sizes for client accounts are compared to the model weights.
- ARI has trade allocation policies and procedures designed to ensure that all clients are treated fairly and equally and to prevent this conflict from influencing the allocation of investment opportunities among clients.

## Item 7      Types of Clients

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ARI provides portfolio management services to individuals, high net worth individuals, corporate pension and profit-sharing plans, Taft-Hartley plans, charitable institutions, foundations, endowments, municipalities, registered mutual funds, private investment funds, trust programs, foreign funds such as

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Undertakings for Collective Investment in Transferable Securities ("UCITS Funds"), and other U.S. and international institutions. As previously noted, ARI also acts as a sub-advisor in wrap fee and Unified Managed Account ("UMA" or model) programs.

ARI requires a minimum asset value for separately managed accounts utilizing its various management services.

Strategy	Minimum Account Size
Mutual & Commingled Funds Under Supervision	\$250,000
U.S. Equity Strategies including:	\$1,000,000
1. Small Cap	
2. Small/Mid Cap	
3. Mid Cap Value	
4. Large Cap	
5. All Cap	
International Equity Strategies	\$5,000,000
Fixed Income Strategies	\$500,000

These minimums apply to accounts on an individual basis. Exceptions to the minimum can be made if other factors or relationships deem it to be in the best interest of the client for ARI to manage the relations.

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

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**Overview of Equity Investment Strategies.** ARI manages various domestic equity investment strategies that include Small Cap, Small-Mid Cap, Mid Cap, Large Cap and All Cap; as well as an international strategy focused on Small Cap. ARI's equity strategies seek long-term capital appreciation by investing in stocks selected using a value approach. The strategies utilize a bottom-up security selection process based on in-house research. The companies that are chosen for the portfolio are those that we believe are undervalued on a price to adjusted book basis and that have, in our opinion, minimal downside risk.

The portfolio construction process uses a combination of quantitative and qualitative analysis to arrive at a diversified portfolio of what we believe are attractively valued securities. All research is constructed with the goal of fully vetting ideas and identifying optimal investment opportunities. In conducting research, the primary sources of information used by ARI include, database screening, broad and industry specific publications, reviews of company activities and interviews with management, annual reports, prospectuses and filings with the SEC, and company press releases.

In most cases, ARI's investment strategies include long term purchases (securities held at least a year), and short term purchases (securities sold within a year). In some cases, trading (securities sold within 30 days), short sales, margin transactions and option writing, including covered options, uncovered options or spreading strategies, may also be employed.

**Overview of Fixed Income Strategies.** ARI manages various fixed income portfolios that include taxable and/or tax exempt bonds that may include corporate, government, and municipal bonds. ARI's



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approach to fixed income investing begins with an understanding of each client's goals and objectives. We will work with clients and their advisors to analyze the client's unique characteristics and then monitor changing client needs and market conditions. Following this analysis, portfolios are typically constructed in a ladder fashion and may be of an intermediate, short term or long term maturity and duration.

**Overview of Additional Strategies.** ARI manages balanced portfolios which generally represent a combination of the Equity and Fixed Income Strategies, but may also incorporate mutual or other comingled fund investments rather than (or in addition to) direct equity investments. In these cases, portfolios are customized following review of the client's investment goals. Other custom specialized portfolios may also be constructed upon consultation with the client.

**Risks of Investing.** In all cases, investing in securities involves risk of loss that clients should be prepared to bear. In addition, while ARI applies investment techniques and risk analyses in making its investment decisions, there can be no guarantee that these decisions will produce the desired results. Some other risks applicable to certain strategies include:

- Equity Risks: The value of the securities held in Equity Investment Strategies may fall due to general market and economic conditions, perceptions regarding the industries in which the issuers of securities held by the Strategies participate, or factors relating to specific companies in which the Strategy invests. The stock market has been subject to significant volatility recently which has increased the risk associated with an investment in Equity Investment Strategies. In addition, while broad market measures of common stocks have historically generated higher average returns than fixed income securities, common stocks have also experienced significantly more volatility in those returns.
- Value Stock Risk: Value stocks involve the risk that the value of the security will not be recognized for an unexpectedly long period of time or that the security is not undervalued but is appropriately priced. A focus on value investing may cause ARI's Equity Investment Strategies to underperform when growth investing is in favor.
- Finance Sector Risks: From time to time, Equity Investment Strategies may include a greater investment in the finance sector, which may be subject to specific risks. These risks include governmental regulation of the sector and governmental monetary and fiscal policies which impact interest rates and currencies and affect corporate funding and international trade.
- Small- and Mid-Cap Company Risks: ARI's primary investment strategies that include Small and Mid-Cap Companies include Small Cap, Small-Mid Cap, Mid Cap, All Cap, and International Small Cap. The securities of small- or mid-cap companies may be subject to more abrupt market movements and may have lower trading volumes than securities of larger companies or the market averages in general. In addition, such companies typically are subject to a greater degree of change in earnings and business prospects than are larger, more established companies.
- Other Risks Relevant to International Equity Investment Strategies: The investment by ARI's International Strategies in non-U.S. issuers may involve unique risks compared to investing in

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securities of U.S. issuers. Adverse political, economic or social developments could undermine the value of such securities or prevent a portfolio from realizing the full value of its investments. Financial reporting standards and transaction settlement systems for companies based in foreign markets differ from those in the United States. In addition, the underlying issuers of certain depositary receipts, particularly unsponsored or unregistered depositary receipts, are under no obligation to distribute shareholder communications to the holders of such receipts, or to pass through to them any voting rights with respect to the deposited securities. The investment in non-U.S. securities that trade in, and receive dividends in, foreign currencies are subject to the risk that those currencies will decline in value relative to the U.S. dollar. Currency rates in foreign countries may fluctuate significantly over short periods of time due to the imposition of currency controls or other political developments in the United States or abroad. As a result, investments in non-U.S. dollar-denominated securities and currencies may reduce the returns of a portfolio.

- **Other Risks Relevant to Fixed Income Investment Strategies:** An issuer of a debt security or counterparty carries credit risk and could suffer an adverse change in financial condition that results in a payment default, security downgrade, or inability to meet a financial obligation. In addition, changes in interest rates will affect the value of fixed income securities and preferred stock. Generally, such securities decrease in value if interest rates rise and increase in value if interest rates fall, with lower rated securities more volatile than higher rated securities. Fixed Income securities also may become illiquid due to a lack of demand in the marketplace or other factors. In such cases, ARI may not be able to sell some or all of the investments that it holds, or may only be able to sell those investments at less than desired prices. Finally, while ARI's Fixed Income strategies are primarily focused on investment-grade securities, lower quality high yield bonds involve greater risks of default, downgrade, or price declines and are more volatile than investment-grade securities.

**Description of Limited Partnerships of which ARI acts as General Partner.** ARI serves as a general partner and investment manager to thirteen (13) commingled limited partnerships which generally are organized by the size of the company in which investments are made, ranging from Micro Cap to Large Cap Equity. Certain of these limited partnerships are of a more focused nature including funds that emphasize certain sectors or are based on certain indices.

The Funds generally seek to maximize total return over a complete market cycle, while employing the tenets of classic value investing by seeking companies trading at reasonable valuations given their growth potential. From a qualitative perspective, companies normally have consistent operating history in an understandable business; long-term growth potential greater than the economy and its competitors and a management team that is rational, focused and acts like owners. Common characteristics of portfolio holdings include companies that are selling at low price/book ratios, have specific hidden assets on the books, selling at low price/earnings ratios and those that have the potential to generate significantly enhanced cash flow over current levels based on a more effective utilization of the assets.

Funds predominantly purchase publicly traded equities in the U.S.; although certain Funds may also include the following types of investments pertaining to the Fund's specialty: (i) publicly traded equities

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in other developed countries, (ii) value-oriented, income-producing securities including, but not limited to, preferred securities, convertible securities, debt securities and yield-producing equity securities, (iii) direct investment in micro-cap companies. Certain funds may also engage in selective hedging techniques to control volatility in certain market environments.

## Item 9      Disciplinary Information

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Registered investment advisers are required to disclose all material facts regarding any legal or disciplinary events that would be material to your evaluation of ARI or the integrity of its management. ARI has no information applicable to this Item.

## Item 10      Other Financial Industry Activities and Affiliations

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ARI is affiliated with Piper Jaffray & Co., Piper Jaffray Investment Management Inc; and Fiduciary Asset Management Inc. Piper Jaffray & Co. provides ARI with various resources and services, including information technology, compliance, human resources, and legal and accounting services. In order to address a potential conflict of interest resulting from the affiliation between ARI and Piper Jaffray & Co., a registered broker-dealer, it is ARI's policy that it will not utilize such brokerage services when placing trades for client accounts.

ARI's CEO also serves as the Head of Asset Management for Piper Jaffray Companies. In this role, Mr. O'Brien is involved in the strategic planning of the asset management component for Piper Jaffray Companies, including its other asset management subsidiaries. To address any potential conflicts of interest associated with his role, Mr. O'Brien is subject to the Codes of Ethics of both ARI and Piper Jaffray.

ARI serves as an advisor to various Advisory Research Funds, which are a series of the Investment Managers Series Trust, and a general partner to thirteen (13) commingled limited partnerships which are managed by ARI. Certain ARI employees are registered representatives of Piper Jaffray & Co., a registered broker dealer for the purpose of marketing the Advisory Research Funds.

## Item 11      Code of Ethics, Participation or Interest in Client Transactions and Personal Trading

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**Code of Ethics.** Acknowledged by all employees at the inception of their employment and annually thereafter, ARI's Code of Ethics includes general standards of conduct and more specific provisions designed primarily to protect the interest of ARI's clients as well as the reputation of ARI as a firm committed to upholding high ethical standards.

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A copy of ARI's Code of Ethics is available to any client or prospective client upon request by contacting ARI's Compliance Department at (312) 565-1414.

Contents of the Code includes:

- Standards of Conduct
- Policies for insider trading
- Policies for employees' personal securities transactions
- Policies on gifts, entertainment & contributions
- Confidentiality policies

Clients should anticipate that, from time to time, ARI, its principals, employees, their family members and/or individuals associated with ARI and/or affiliates of such persons, will buy or sell the same securities for their personal accounts which are identical to those recommended to clients or that the clients own. At no time will ARI or its affiliates put personal interests before that of its clients', or intentionally disadvantage clients when executing trades and all client orders will be filled before ARI's or its affiliates' orders. Notwithstanding, ARI and/or its affiliates may participate in buy and sell transactions alongside clients as part of bunched orders. In these cases, ARI will allocate fills of such orders on a pro-rata basis or in an otherwise fair and equitable manner to all participants in the bunched order.

It is ARI's policy that it will not affect principal or agency cross securities transactions for client accounts. In general, ARI does not conduct other cross transactions but on occasion may do so if ARI believes that such transactions are consistent with investment objectives of, and in the best interest of, the clients involved. On occasion, ARI may also utilize a third party VWAP crossing network to execute trades in order to ensure low commission rates and no market impact. These "blind" transactions are designed to provide anonymous negotiations without identifying the parties and function in a manner similar to the operation of an exchange. The VWAP cross electronically matches all buyers and sellers (not just ARI clients) and executes order at the end of the day at a price equal to the full-day VWAP. ARI is not aware that any inadvertent crosses have occurred between its own clients. The positions are at risk during the period of time they are matched in the crossing network and there are risks that all trades may not be executed using the crossing network.

## Item 12 Brokerage Practices

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In selecting a broker/dealer through which to purchase or sell securities, ARI will look for the most favorable combination of transaction cost, transaction ability, research and other services. In connection, price and commissions, execution ability, clearance procedures, and the nature and quality of research and other brokerage services provided by the broker/dealer are considered in using a specific broker.

On occasion, ARI may select a broker/dealer for execution of client transactions with whom a family member of one of ARI's executive officers or employees is affiliated. Specifically, Brendon O'Brien, the brother of Brian O'Brien, Chairman of ARI, is a registered representative of Wachovia Securities. Client

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transactions are executed at Wachovia only when ARI believes doing so is consistent with the principles of best execution.

#### **Selecting Brokers & Use of Soft Dollars**

ARI also has relationships with particular brokers who provide research and other related services through soft dollar arrangements with ARI. Although ARI may receive proprietary research publications from various broker dealers, such as economic overviews on particular industries, the substantial majority of the products and services obtained through these soft dollar arrangements generally constitute third party research and research-related products and services in the form of research vehicles such as Research Insight, Bloomberg, research services or industry-specific periodicals. In addition to these items, ARI may also acquire services which have a mixed use, in addition to research, such as RiskMetrics Group, Advent and Fiserv Investment Services. In the case of mixed use items, ARI allocates a percentage ratio of soft and hard dollars to the product / service acquired.

When ARI utilizes client brokerage commissions (or markups or markdowns) to obtain research or other products or services, it receives a benefit because it does not have to pay for the research, products or services. As a result, ARI may have an incentive to select or recommend a broker-dealer based on its interest in receiving these products or services, rather than on its clients' interest in receiving most favorable execution. ARI will only choose such broker/dealers when the execution complies with the principles of best execution. Commission rates negotiated with brokers for the execution of trades which generate soft dollar commission credits do not differ materially from those negotiated with other brokers which trades do not generate such credits. Additionally, ARI utilizes soft dollar benefits to service all its accounts and does not seek to allocate soft dollar benefits to client accounts proportionately to the soft dollar credits the accounts generate.

#### **Selecting Brokers & Referral Arrangements**

ARI may select as a broker/dealer for client transactions, broker/dealers that have affiliated entities who have referred or may refer clients to ARI. In such cases, ARI may have an incentive to select or recommend a broker-dealer based on its interest in receiving referrals, rather than on the clients' interest in receiving more favorable execution. Notwithstanding, ARI will only choose such broker/dealers when the execution complies with the principles of best execution. ARI has no formal relationships or agreements with any broker/dealer or associated person thereof which requires ARI to direct, or which compensates ARI for directing, any specified level of brokerage/commissions to any broker/dealer.

#### **Client-Directed Brokerage**

With respect to ARI's management services, clients generally are required to give ARI discretion and authority to manage their assets under ARI's supervision. Consequently, ARI determines which securities to buy or sell, the broker or dealer through which the securities will be bought or sold, and the commission rates at which transactions are affected. Any limitations or restrictions, with respect to the exercise of this investment discretion, will be those established by the client, in writing, at the commencement of the advisory relationship or thereafter.

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A small number of ARI's clients have designated the broker-dealer through which they want their securities transactions executed. ARI will review such designations to assess whether they are inconsistent with ARI's duty of best execution for the client. It should be noted that a client's direction to use a particular broker may limit or eliminate ARI's ability to (i) negotiate commissions on the client's behalf, (ii) obtain best price and execution, (iii) include the client's orders in bunched orders, (iv) obtain certain securities or participate in certain transactions on behalf of the client, or (v) place orders for client transactions in as timely a manner as orders are placed for ARI's other clients.

#### **Bunched Orders**

ARI's decisions to execute trades must include a decision on position size consistent with the investment objectives, guidelines and restrictions of its clients. From time to time, it may be appropriate for more than one client account to trade in the same securities at the same time in a "bunched order". In the case of bunched orders, allocations to multiple clients must be based on fair and equitable treatment of all clients, taking the following factors into consideration, among others:

- Investment objectives and requirements.
- Risk-management requirements.
- Adherence to any limits as defined in the applicable client's investment guidelines.
- Capital availability in each client account for trade of type under consideration.
- Liquidity/availability of securities.
- Current sector and/or security diversification in each client's account.

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

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ARI provides ongoing review of its client accounts. This includes reviewing objectives to assure they are appropriate and accounts are managed in a manner consistent with the objectives of the client. Asset allocation, diversification, individual holdings and performance will be reviewed. In addition to the above, accounts will generally be reconciled monthly to custodial records. Clients generally receive statements of all holdings and positions in their portfolio on a monthly basis.

The investment research, financial analysis and portfolio management duties are primarily performed by a team of investment professionals led primarily by Brien O'Brien, CEO and Chairman; David B. Heller, President; James M. Langer, CFA, Managing Director; Matthew K. Swaim, CFA, CPA, Managing Director; Jonathan P. Brodsky, Managing Director; Matthew W. Dougherty, CFA, Managing Director; Eric J. Miller, CMA, Managing Director; and Bruce M. Zessar, Managing Director.

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## Item 14 Client Referrals and Other Compensation

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ARI may compensate a limited number of U.S. or non-U.S. third party referral sources who, on a fully disclosed basis (in compliance with Rule 206(4)-3), receive a small portion of ARI's standard advisory fees which are paid by the client, to ARI.

ARI has an agreement with Piper Jaffray & Co., an affiliated broker dealer, whereby its sales representatives may refer clients to ARI for compensation. The sales representative shall disclose the nature of his/her relationship to prospective clients at the time of the solicitation by providing a copy of the disclosure statement containing the terms and conditions of the solicitation arrangement. It is ARI's policy that it will not utilize the brokerage services of Piper Jaffray & Co. when placing trades for client accounts.

From time to time ARI may receive referrals from particular brokers who provide research and other related services through soft dollar arrangements with ARI. As disclosed previously, ARI will only choose such broker/dealers when the execution complies with the principles of best execution. ARI has no formal relationships or agreements with any broker/dealer or associated person thereof which requires ARI to direct, or which compensates ARI for directing, any specified level of brokerage/commissions to any broker/dealer.

ARI has relationships with other parties which may include service providers, accountants, lawyers and data providers whose compensation is solely for the services for which they are engaged and may from time to time refer clients to ARI.

## Item 15 Custody

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ARI does not provide custodial services to its clients. Clients' assets are held with banks or registered broker-dealers that are "qualified custodians." Clients should receive at least quarterly statements from the broker dealer, bank or other qualified custodian that holds and maintains client's investment assets. ARI urges you to carefully review such statements and compare such official custodial records to the account statements that we may provide to you. Our statements may vary from custodial statements based on accounting procedures, reporting dates, or valuation methodologies of certain securities.

## Item 16 Investment Discretion

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ARI 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 investment objectives for the particular client account.

When selecting securities and determining amounts, ARI observes the investment policies, limitations and restrictions of the clients for which it advises. For registered investment companies, ARI's authority



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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.

ARI requests that investment guidelines and restrictions be provided to it by its clients in writing.

## Item 17      Voting Client Securities

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ARI has engaged and may utilize RiskMetrics Group ("RMG" and formerly Institutional Shareholder Services) to provide proxy voting services for clients for whom ARI exercises proxy voting authority. ARI has adopted standard proxy voting guidelines, which are generally applied by RMG to all ARI proxy votes, absent instruction from ARI to the contrary. ARI generally votes in accordance with its proxy voting guidelines; however, in rare circumstances ARI may opt to override the guidelines if it is decided to be the best interest of its clients.

Complete proxy voting policies and procedures, including complete guidelines are available upon request. Additionally, clients may contact ARI at (312) 565-1414 to obtain information on how securities were voted.

## Item 18      Financial Information

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Registered investment advisers are required in this Item to provide you with certain financial information or disclosures about ARI's financial condition. ARI has no financial commitment that impairs its ability to meet contractual and fiduciary commitments to clients, and has not been the subject of a bankruptcy proceeding. Piper Jaffray Companies files quarterly and annual financial statements with the SEC. These are available through the SEC and on Piper Jaffray's web site at the following location: [http://www.piperjaffray.com/2col\\_largeright.aspx?id=161](http://www.piperjaffray.com/2col_largeright.aspx?id=161)