



Al Frank Asset Management, Inc.

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This Brochure provides information about the qualifications and business practices of Al Frank Asset Management, Inc. If you have any questions about the contents of this Brochure, please contact us at 949.499.3215. 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.

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

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

## **Item 2 – Material Changes**

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

In the future, this Item 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 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 further provide you with a new Brochure as necessary based on changes or new information, at any time, without charge.

Currently, our Brochure may be requested by contacting Duane Mattson, Chief Compliance Officer, at 512.354.7041, or [dmattson@alfrank.com](mailto:dmattson@alfrank.com). Our Brochure is also available on our web site [www.alfrank.com](http://www.alfrank.com), also free of charge.

Additional information about Al Frank Asset Management, Inc., is also available via the SEC’s web site at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov). The SEC’s web site also provides information about any persons affiliated with Al Frank Asset Management, Inc., who are registered, or are required to be registered, as investment adviser representatives of Al Frank Asset Management, Inc.

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## Item 4 – Advisory Business

The following information describes investment advisory services of Al Frank Asset Management, Inc. (“AFAM”) or (“the Firm”) and Al Frank Value and Innealta Capital (“Innealta”), divisions of Al Frank Asset Management, Inc.

AFAM is an independently owned SEC-registered investment advisor. The firm was founded in 1977 by noted equity value manager Al Frank (1930-2002). AFAM maintains core offices in Aliso Viejo, CA, and Austin, TX.

The firm offers managed accounts through two distinct divisions - Value and Innealta Capital. AFAM also is the investment advisor to two value-oriented no-load proprietary mutual funds and edits and publishes *The Prudent Speculator* investment newsletter.

AFAM’s **Value Division** manages discretionary accounts (portfolios) through buying, holding and selling stocks in widely diversified portfolios to be held for long-term capital appreciation. We select equity securities that we believe are out of favor and undervalued, and hold them until we believe that the securities have reached a fair value or until our research finds a candidate with more attractive risk/reward attributes or the stock’s evolved risk/reward profile fails to justify continued ownership. Stock selection is not limited by size and portfolios may be invested in companies of any market capitalization.

- The Value strategy includes both dividend and non-dividend paying stocks and seeks broad diversification via exposure to a significant number of major market sectors and industry groups. Portfolios are initially constructed with 60 to 80 positions.
- The Dividend Value strategy generally adheres to the same investment philosophy as the Value strategy and primarily invests in dividend paying companies. Given the dividend-emphasis, portfolios are initially constructed with 40 to 60 securities.

AFAM’s **Innealta Capital Division** specializes in the creation and tactical management of exchange traded fund portfolios.

Innealta Capital manages discretionary accounts (portfolios) among exchange traded funds and, where appropriate, in combination with a basket of equities utilizing a strategy similar to the Value strategy.

We offer the following strategies as part of the Innealta Tactical ETF Portfolio Series. They are rebalanced at regular intervals:

- The Risk-Based Core Portfolios are comprised of three separate portfolios, each distinguished by a unique strategic asset allocation to two baskets of exchange-traded funds (ETFs). One of those baskets is comprised of fixed income ETFs, while the other is comprised of equity ETFs. The three Risk-Based Core Series portfolios are: Conservative (40% equity, 60% fixed income); Moderate (60% equity, 40% fixed income); and Growth (80%, equity, 20% fixed income).

- The Risk-Based Opportunity Portfolios are comprised of three separate portfolios, each distinguished by a unique strategic asset allocation to two baskets of ETFs. One of those baskets is comprised of fixed income ETFs, while the other is comprised of leveraged equity ETFs. The Risk-Based Opportunity portfolios use the same tactical model as the Risk-Based Core portfolios, but implement the strategy using leveraged ETFs in specific equity asset classes to obtain similar exposure as the Risk-Based Core portfolios but with a lower dollar allocation. The remaining capital is then deployed to try to optimize the investment characteristics of the portfolio. The three Risk-Based Opportunity Series portfolios are: Conservative (40% equity, 60% fixed income); Moderate (60% equity, 40% fixed income); and Growth (80% equity, 20% fixed income). The use of leverage can magnify gains and losses in a portfolio. For more information, see Item 8 “Methods of Analysis, Investment Strategies and Risk of Loss.”
- The Tactical ETF Rotation Portfolios are comprised of four separate portfolios and are constructed to seek endurance in all types of markets. The strategies are based on a quantitatively driven, tactical asset allocation approach that apportions portfolio assets to 20 countries in the Country Rotation Portfolio and 10 sectors in the Sector Rotation Portfolio based on the specific risk/reward characteristics of each. Dollars not allocated to equities are invested in a basket of fixed-income ETFs. Together, the portfolio strategies seek to provide benchmark-beating returns through global diversification, active management, style integrity, minimized security selection risk and cost efficiency. The four Tactical Rotation Portfolio Series portfolios are Sector Core, Sector Opportunity, Country and Fixed Income. Sector Opportunity Rotation Portfolio utilizes leverage, which can magnify gains and losses, as described in more detail in Item 8.
- The Dynamic Portfolio Series combines a near-term adaptable tactical portfolio component that emphasizes risk management with a long-term-oriented strategic portfolio component focused on undervalued U.S.-traded equities – similar to the Value strategy mentioned above – and then wraps that combination around a fixed-income ballast. Together, the portfolio strategies seek to provide benchmark-beating returns through:
  - Income-generating stability through fixed-income
  - Controlled adaptability through the tactical component
  - Patient selectivity through the strategic component

The three Dynamic Portfolio Series I portfolios are: Conservative (50% fixed income, 25% tactical, 25% strategic); Moderate (25% fixed income, 37.5% tactical, 37.5% strategic); and Growth (50% tactical, 50% strategic).

The three Dynamic Portfolio Series II portfolios are: Conservative (50% fixed income, 25% strategic, 12.5% tactical international, 12.5% tactical domestic);

Moderate (25% fixed income, 37.5% strategic, tactical international 18.75%, tactical domestic 18.75%); and Growth (50% strategic, 25% tactical international, 25% tactical domestic).

Our advice is limited to that described above. Investment allocation decisions are based upon a number of factors, including your representations, completion of a client worksheet that gives us information about your investment objectives and risk tolerance, and time horizon, and conversations with you about the same.

When you engage our managed account services, you enter into a written Investment Advisory Agreement with us. You authorize us to have access to your account in order to manage it according to the strategy or strategies selected. The Investment Agreement outlines the nature of our duties, lists applicable fees, contains required disclosures, and contains certain limits to our liability. The Investment Agreement also specifies that we have the power to vote proxies with respect to securities held in the account(s) unless you instruct us otherwise. It is possible for you to impose restrictions on investing in certain securities, though that may limit our ability to execute the strategy as described above.

As of February 28, 2011, we managed \$527,861,960 on a discretionary basis and \$1,410,190,353 on a non-discretionary basis.

We recommend stocks in The Prudent Speculator ("TPS") that John Buckingham, other employees, the Funds, managed clients, or model portfolios may already own. Model Portfolios (for the newsletters) are actual or hypothetical portfolios posted on our Web site [prudent-speculator.com](http://prudent-speculator.com). Every new newsletter transaction is listed in the Sales Alerts and may also be listed in the Market Commentary or newsletter. When buying stocks for managed accounts, their orders are placed ahead of any employee's order. When first-time recommendations are made in the newsletters, no employee will trade in those stocks for his or her account until two market days after the trade is posted to the newsletter's Web site. No access person for the Funds may trade ahead of the Funds. We sometimes trade stocks not recommended in the newsletters in order to average down or up, balance portfolios, meet margin calls or meet clients' requests for cash or specific stocks.

## **Item 5 – Fees and Compensation**

AFAM bills clients for its management services on a quarterly basis prorated after services are rendered based on the end of quarter equity or market value, whichever is greater as follows:

- 1.50 percent per annum (0.375% per quarter) of the first \$500,000, and
- 1.25 percent per annum (0.3125% per quarter) of the next \$500,000, and
- 1 percent per annum (0.25% per quarter) of amounts above \$1,000,000.

Some clients may pay fees that are different from those listed above either because the client agreed to a fee schedule in the past that is no longer in effect or because special fees may be negotiated with individual clients or advisors.

Innealta Tactical ETF Portfolio Series – Fixed Income portfolio generally charges 50% of AFAM's regular fee schedule.

AFAM recommends Charles Schwab & Co., Inc. ("Schwab"), and Fidelity Brokerage Services, LLC ("Fidelity"). They have consistently provided excellent brokerage services, which include: competitive execution rates, trading resources, back office support, electronic account data and seamless account transfers. In certain very limited instances, AFAM may allow brokerage services and custody at a brokerage firm other than Schwab and Fidelity. You may be charged an additional fee in these situations because more manual work is involved.

If you also invest in our mutual funds, you pay fees as detailed in the prospectus for each fund (available by calling or writing us or on our website at [www.alfrankfunds.com](http://www.alfrankfunds.com)). Our Dividend Value mutual fund also is included in our Dividend Value managed account composite as the strategies are similar. If you invest in both, you will be subject to a dual layer of fees.

There is an initial setup (non-refundable) fee of \$200 for the first account per client and \$50 for each additional account opened under our management by the same person or close family member. Agreements may be terminated in writing or by phone. Fees are billed on a pro rata basis to the termination date. We will not begin management of your portfolio until all required documents are authorized by you and received by us in good order.

You may incur certain charges imposed by your broker-dealer or custodian, such as custodial fees and charges imposed directly by a mutual fund or exchange traded fund in the account, which will be disclosed in the fund's prospectus. For assets held outside of a wrap fee program, you may incur brokerage commissions and transaction fees. Such charges, fees and commissions are exclusive of and in addition to the firm's management fee.

AFAM is a sub-advisor for various wrap and platform Programs. Wrap and platform sponsors usually bill clients in advance on a quarterly basis and calculate fees based on the market value of the assets on the last day of the preceding quarter. AFAM receives a portion of the total fee charged by the wrap and platform sponsor as negotiated with each firm sponsor. AFAM offers its services through a wrap fee Program sponsored by Envestnet Asset Management, Inc. and other Turnkey Asset Management Programs (TAMP) whereby the firm receives a fee for providing investment models for use in the third party model Programs based on the market value of the assets being managed. The Program sponsors provide a complete description of the TAMP and wrap/platform terms and conditions including fees, in their respective ADV Part 2As. Because AFAM does not have primary relationship responsibilities in these situations, Program sponsors are responsible for

providing their Form ADV Part 2As and other required documents - such as Privacy Policies - to each participating client.

As an accommodation, non-fee paying accounts may be set up for clients and/or their family members where the funds are solely invested in one or both of the AI Frank Funds. The accounts are not actively managed and no reports or statements for these accounts are sent to the client by AFAM.

John Buckingham and other AFAM investment professionals speak at investment seminars and other functions for various organizations for negotiated honoraria and expenses.

Current subscription rate for *The Prudent Speculator* is \$295 for one year (12 issues).

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

AFAM does not manage accounts using a performance-based fee (fees based on a share of capital gains on or capital appreciation of the assets of a client).

### **Item 7 – Types of Clients**

We provide portfolio management services to individuals, including high net worth individuals, investment companies, pension and profit sharing plans, trusts, estates, charitable organizations, corporations and business entities. AFAM is also advisor to two no-load mutual funds, the AI Frank Fund and AI Frank Dividend Value Fund.

We currently request that new management clients invest a minimum of \$500,000. We will accept less than the minimum in some situations. The minimum for most wrap fee programs and platforms is \$100,000. We generally do not analyze bonds, GNMA's, municipal bonds, or mutual funds. If you, as a client, have stocks not previously recommended in *The Prudent Speculator* (our newsletter) we may sell and replace them with currently recommended stocks.

As described in Item 5, AFAM is a sub-advisor for various wrap and platform Programs. We also provide our model investment frameworks to certain financial service intermediaries by agreement and we receive a fee for this service.

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

We generally provide management services for exchange-listed and over-the-counter traded equity securities and exchange traded funds. We do not generally manage commercial paper, bank certificates of deposit, municipal securities, U.S. government securities, option contracts on commodities, or interests in partnerships (except for master limited partnerships traded on exchanges). We may also provide advice on any type of investment held in a client's portfolio at the beginning of the advisory relationship.

We use data sources such as Bloomberg and Thomson in order to run analytics.

AFAM's Value Division buys common stocks that it considers to be undervalued and that trade on the U.S. exchanges. Stocks are held in widely diversified portfolios for their long-term appreciation potential or until our research finds a candidate with more attractive risk/reward attributes or an individual stock's evolved risk/reward profile fails to justify continued ownership.

It is possible for you to use margin (borrowed money that is used to purchase securities) with Value strategies. Use of margin magnifies both gains and losses and subjects you to unique risks, such as interest payments for use of borrowed money. We set limits on use of margin and will require you to sign a margin agreement if you want to use margin.

Innealta Capital Division invests in exchange traded funds ("ETFs") as previously described in Item 4, Advisory Business.

Investing in securities involves risk of loss that clients should be prepared to bear. Investing in securities of small and medium-sized companies may involve greater volatility and risk.

ETFs are subject to risks similar to those of stocks, such as market risk, and you may experience losses. The use of leverage (borrowed capital) by an exchange-traded fund increases the risk to the fund. The more a fund invests in leveraged instruments, the more the leverage will magnify gains or losses on those investments. As described in Item 4, the following ETFs use leverage: The Innealta Tactical ETF Portfolio Series: The Risk-Based Opportunity Portfolios and Sector Opportunity Rotation Portfolio.

The value of an investment and the return on invested capital will fluctuate over time and, when sold or redeemed, may be worth less than its original cost. Additionally, fixed income (bond) ETFs are subject to interest rate risk which is the risk that debt securities in a portfolio will decline in value because of increases in market interest rates. Investments in foreign investments may incur greater risks than domestic investments.

Diversification does not protect against loss in declining markets.

## **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 AFAM or the integrity of our management. AFAM has no criminal, regulatory, civil, or other actions to report applicable to this item.

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

AFAM is advisor to the Al Frank Fund and Al Frank Dividend Value Fund (the "Funds"). The Funds are a series of shares of beneficial interest of Advisors Series Trust, which is

registered under the Investment Company Act of 1940 as a diversified, open-end management investment company. The Al Frank Fund began operations January 2, 1998 and the Al Frank Dividend Value Fund began operations September 30, 2004. The investment objective of the Funds is to seek growth of capital by investing in out of favor and undervalued equity securities. For more information and a prospectus, phone 888.263.6443 or contact our office. The prospectus contains more complete information, including risks, fees and expenses. Read it carefully before you invest. Certain AFAM employees maintain FINRA registrations through Quasar Distributor, LLC, the distributor of the Al Frank Funds.

AFAM has business arrangements with firms that allow the listing of AFAM on their intranet sites and opportunities to participate in conferences and meetings, for a fee. AFAM is party to licensing agreements whereby AFAM provides investment models for use in third party model programs. We may receive referrals from these business relationships.

### **Item 11 – Code of Ethics**

We maintain, monitor and enforce a formal Code of Ethics and Standards of Professional Conduct for our employees. It is our policy that each employee conducts his or her business affairs with such standards of integrity that all real and potential conflicts of interest are either eliminated or fully disclosed so that no other conflict of interest exists or can be implied or construed. Employees and Access Persons complete Conflicts of Interest disclosure questionnaires, which are reviewed and approved or not approved by AFAM's Chief Compliance Officer.

The Company has also adopted the CFA Institute's "Code of Ethics and Standards of Professional Conduct."

The Code of Ethics describes our fiduciary duty to you and outlines our high standards of business conduct. The Code includes provisions relating to the confidentiality of client information, a prohibition on insider trading, restrictions on the acceptance of significant gifts and business entertainment items, and personal securities trading procedures, among other things. All supervised persons at AFAM must acknowledge the terms of the Code at the inception of employment and annually thereafter, or upon the amendment of the Code. The AFAM Code includes policies and procedures reasonably designed to prevent the misuse of material non-public information by investment advisers. The Code also contains procedures with respect to personal securities transactions of all AFAM officers and employees ("Access Persons"). These procedures cover transactions in a security in which the Access Person has a beneficial interest or in accounts over which the Access Person exercises control, as well as transactions by members of their immediate family.

The Code directs Access Persons of AFAM to conduct their affairs, including their personal securities transactions, in such manner to avoid (i) serving their own personal interests ahead of clients, (ii) taking inappropriate advantage of their position with the firm and (iii) any actual or potential conflicts of interest or any abuse of their position of trust and

responsibility. This fiduciary duty includes the duty of the Chief Compliance Officer of AFAM to report material violations of the Code to AFAM's Senior Management and Board of Directors. All Access Persons complete a personal securities transaction report to the Chief Compliance Officer quarterly.

The Code also is designed to assure that the personal securities transactions, activities and interests of the employees of AFAM will not interfere with (i) making decisions in the best interest of advisory clients and (ii) the implementation of such decisions while, at the same time, allowing employees to invest for their own accounts. Under the Code certain classes of securities have been designated as exempt transactions, based upon a determination that these would not materially interfere with the best interest of our clients.

In addition, the Code restricts trading in close proximity to client trading activity. Nonetheless, because the Code of Ethics in some circumstances would permit employees to invest in the same securities as clients, there is a possibility that employees might benefit from market activity by a client in a security held by an employee. Employee trading is continually monitored under the Code of Ethics, and is designed to reasonably prevent conflicts of interest between AFAM and its clients.

You can request a copy of our Code of Ethics by contacting AFAM's Chief Compliance Officer at the phone number listed on the cover of this brochure.

## **Item 12 – Brokerage Practices**

We encourage clients to use Schwab Institutional, a division of Charles Schwab & Co., Inc. ("Schwab") and Fidelity Brokerage Services, LLC ("Fidelity"). If you direct brokerage to a provider other than Schwab or Fidelity, you may pay higher commissions in some instances, depending on our ability to negotiate commissions, obtain volume discounts or best execution from the broker selected.

We select brokers principally on the basis of their commission rates and quality of execution and service, not on the basis of any products, research or "soft dollars." You are responsible for verifying that they are receiving best execution if you direct your brokerage to a provider other than our recommended brokers. (Best execution refers to our obligation on your behalf to ensure that the prices on trade orders we execute on your behalf receive and reflect the optimal mix of price improvement, speed and likelihood of execution.)

Schwab Institutional and Fidelity provide AFAM with access to their institutional trading and operations services, which are typically not available to Schwab or Fidelity retail investors. Schwab Institutional and Fidelity also make available to AFAM other products and services that benefit AFAM but may not benefit your account(s), such as periodic and limited commission free trades. Some of these other products and services assist AFAM in managing and administering clients' accounts. Schwab Institutional and Fidelity may also provide AFAM with other services intended to help AFAM manage and further develop its business enterprise. Schwab Institutional and Fidelity may discount or waive fees it would

otherwise charge for some of these services or pay all or part of the fees of a third-party providing these services.

Our authority to manage and trade extends only to those amounts agreed upon under our management. In discretionary accounts, we have the authority to determine, without obtaining your current consent before the transactions are affected, both the securities that are to be bought or sold and the amount of such securities. The only limitations on our authority are those you may impose by specifying that you wish to avoid certain types of stocks, e.g., nuclear utilities, tobacco or liquor stocks.

We may occasionally co-sponsor educational or client events with certain broker-dealers or custodians.

On the occasion that we purchase the same security, at the same time, for multiple accounts, we utilize a rotational order execution and trade allocation system based on the alphabet. The sequence in which orders of directed and non-directed accounts are placed with brokers is determined alphabetically and then reverse-alphabetically. The objective of this procedure is to ensure that no client receives special consideration when trades are placed with brokers. Block orders may be used when it is in the best interest of each client participating in the order. Partially filled bunched orders are allocated to the least-invested account when purchasing and the most-invested account when selling.

We request and encourage you to grant authority, in writing, to have management fees deducted directly from your brokerage account.

### **Item 13 – Review of Accounts**

Value Division: Portfolio managed accounts are generally updated daily by computer, with summaries reviewed that show cash available, debit balance and market value. In addition, updated daily analyses of all followed (including owned) stocks indicate stocks that are buy or sell candidates which then are cross-referenced to stocks held in individual accounts. If you have a question, request, or deposit funds, we will conduct a relative review of your portfolio. If on-going fundamental or technical analyses reveal strategic actions to be taken, discretionary powers are invoked, and we will notify you depending upon the nature of the situation. All portfolios are reviewed by John Buckingham and the portfolio management team.

Innealta Capital Division: Portfolios are primarily allocated investment assets, on a discretionary basis, among exchange traded funds and, where appropriate, in combination with a basket of equities utilizing a strategy similar to the select value strategy, in accordance with your investment objectives and risk tolerance. The portfolios are rebalanced based on the quantitative model for the tactical portfolios whereby the aggregate signals are used to determine whether the model is bullish or bearish on each individual equity market relative to non-equity classes. If the model indicates a change, the portfolios are reviewed and rebalanced accordingly. Dr. Gerald Buetow and the portfolio management team are responsible for review and management of the portfolios.

After an initial setup conference and periodic reviews, trading for discretionary accounts is usually affected without further consultation.

We mail our clients quarterly portfolio printouts, quarterly fee statements (see Section 15 “Custody”), semi-annual and annual performance statements (excluding wrap and platform clients, who receive reports directly from the wrap/platform sponsor).

Additionally, clients of our Value Division receive *The Prudent Speculator*, our monthly investment advisory publication and its Sales Alerts and weekly Market Commentary that keep them informed of currently recommended stocks with goal price objectives, recommended stock market strategies and model portfolio changes (excluding wrap and platform clients).

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

We currently have a referral agreement in effect with one third party (AIS Planning) and we may retain other third parties to solicit prospective clients on our behalf. When and if we utilize a solicitor under such arrangement, we disclose the nature of this relationship and compensation, as required under Rule 206(4)-3 of the Investment Advisers Act of 1940 (“The Act”). There is no difference in fee schedule for a client working directly with us or under a solicitor’s agreement arrangement.

#### **Item 15 – Custody**

AFAM does not take physical custody of clients’ securities or funds and all account deposits and withdrawals must be done directly with the brokerage house. We are deemed by the Securities and Exchange Commission to have custody under Rule 206 (4)-2 of The Act because we request that you give us authority to deduct advisory fees directly from your account(s).

Our clients should receive statements at least quarterly directly from the broker dealer, bank or other qualified custodian that holds and maintains their investment assets.

We mail our clients quarterly fee statements (excluding wrap and platform clients, who receive reports directly from the wrap/platform sponsor). Clients also receive trade confirmations and monthly statements directly from their broker-dealer or custodian, as all accounts are in the client’s name.

There may be differences between our statements and the statements provided by the custodian because we use end-of-month prices as delivered electronically by FactSet Research Systems, Inc., while brokerage statements may use closing prices of a day or more before month end. We urge our clients to carefully review such statements and compare such official custodial records to the account statements that AFAM provides.

## **Item 16 – Investment Discretion**

We receive discretionary authority from you at the beginning of our relationship with you to select the specific securities and amount of those securities to be bought or sold. Terms of this authority are laid out in our Investment Management Agreement. We execute such discretion in a manner consistent with the stated investment objectives for your account and the stated investment strategy of the portfolio(s) we manage on your behalf.

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

We act as discretionary investment advisor for various clients, including clients governed by the Employee Retirement Income Security Act of 1974 (“ERISA”) and a registered open-end investment company (mutual fund). As advisor, we have authority to vote certain proxies or act with respect to other shareholder actions. We generally vote proxies for securities we have selected that are held in your account(s), unless you tell us in writing that you want to retain the right to vote the proxies.

Where we have been delegated the authority to do so, we will vote proxies and act on all other corporate actions in a timely manner in accordance with our Proxy Voting Policies and Procedures.

When voting proxies or acting with respect to corporate actions for you, our utmost concern is that all decisions are made solely in your best interests (and for ERISA accounts, plan beneficiaries and participants, in accordance with the letter and spirit of ERISA). We will act in a prudent and diligent manner intended to enhance the economic value of the assets of your account(s).

Although many proxy proposals can be voted in accordance with our established guidelines, we recognize that some proposals require special consideration, which may dictate that an exception be made to the guidelines. We are also responsible for ensuring that all corporate action notices or requests which require shareholder action received by us are addressed in a timely manner and consistent action is taken across all similarly situated client accounts.

Where a proxy proposal raises a material conflict between our interests and your interests, such as if you are a mutual fund client, we will resolve such a conflict by voting in accordance with established guidelines; obtaining your consent to the proposed vote prior to voting the security; or forwarding the proxy matters to an independent third party as you direct. We will review the proxy proposal for conflicts of interest as part of the overall vote review process.

We will not vote proxies if we determine that the value of your economic interest or the value of the portfolio holding is indeterminable or insignificant. We also will not vote proxies received for securities that are no longer held in your account(s). In addition, we generally will not vote securities where the economic value of the securities in your

account is less than \$500, or in certain circumstances, after doing a cost-benefit analysis, we may abstain from voting where the cost of voting your proxy would exceed any anticipated benefits to you.

We generally will not vote securities that are out on loan, transferred into the borrower's name and are voted by the borrower, in its discretion. However, where we determine that a proxy vote (or other shareholder action) is materially important to your account(s), we may recall the security for purposes of voting.

These policies and procedures also reflect the fiduciary standards and responsibilities set forth by the Department of Labor for ERISA accounts.

Clients may obtain information on how their securities were voted, or receive a copy of our Proxy Voting Policies and Procedures by contacting AFAM's Chief Compliance Officer at the phone number listed on the cover of this brochure.

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

We have no financial commitment that impairs our ability to meet contractual and fiduciary commitments to you. We have not been the subject of a bankruptcy proceeding.