

# Disclosure Brochure

March 28, 2011

## **Investment Advisors Asset Management, LLC**

*a Registered Investment Adviser*

137 North Second Street  
Easton, Pennsylvania 18042

(610) 258-3269

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

This brochure provides information about the qualifications and business practices of Investment Advisors Asset Management, LLC (hereinafter "IAAM"). If you have any questions about the contents of this brochure, please contact Stanley Bielicki at (610) 258-3269. 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. Additional information about Investment Advisors Asset Management, LLC is available on the SEC's website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).

Investment Advisors Asset Management, LLC is an SEC registered investment adviser. Registration does not imply any level of skill or training.

## **Item 2. Material Changes**

This Item discusses only the material changes that have occurred since IAAM's last annual update dated March 26, 2010. IAAM does not have any material changes to disclose in this Item.

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### Supervised Person Brochure Supplement(s)

## Item 4. Advisory Business

Founded in May 2003, IAAM provides financial planning, consulting, and investment management services to its clients. Joseph Parsons, Thomas Musumeci and James Rice are the principal owners of the firm. IAAM is committed to helping its clients plan with financial confidence. The firm's mission statement is to inspire clients to help achieve their financial dreams by providing innovation, education and exceptional client service. IAAM's core values are integrity, professionalism, client service and teamwork.

Prior to engaging IAAM to provide any of the foregoing investment advisory services, the client is required to enter into one or more written agreements with IAAM setting forth the terms and conditions under which IAAM renders its services (collectively the "*Agreement*").

IAAM has \$325,872,842 of assets under management as of December 31, 2010, all of which are managed on a discretionary basis.

This Disclosure Brochure describes the business of IAAM. Certain sections will also describe the activities of *Supervised Persons*. *Supervised Persons* are any of IAAM's officers, partners, directors (or other persons occupying a similar status or performing similar functions), or employees, or any other person who provides investment advice on IAAM's behalf and is subject to IAAM's supervision or control.

### Financial Planning and Consulting Services

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IAAM may provide its clients with a broad range of comprehensive financial planning and consulting services. These services may include education planning, pre and post-retirement planning, estate planning, investments, insurance and the tax and cash flow needs of the client. These services may be provided for a fixed or hourly, or may be included as part of the firm's investment management fee, described below.

In performing its services, IAAM is not required to verify any information received from the client or from the client's other professionals (e.g., attorney, accountant, etc.) and is expressly authorized to rely on such information. IAAM may recommend the services of itself, its *Supervised Persons* in their individual capacities as registered representatives of a broker-dealer, and/or other professionals to implement its recommendations. Clients are advised that a conflict of interest exists if IAAM recommends its own services. The client is under no obligation to act upon any of the recommendations made by IAAM under a financial planning or consulting engagement or to engage the services of any such recommended professional, including IAAM itself. The client retains absolute discretion over all such implementation decisions and is free to accept or reject any of IAAM's recommendations. Clients are advised that it remains their responsibility to promptly notify IAAM if there is ever any change in their financial situation or investment objectives for the purpose of reviewing, evaluating, or revising IAAM's previous recommendations and/or services.

## Investment Management Services

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Clients can engage IAAM to manage all or a portion of their assets on a discretionary basis. IAAM primarily allocates clients' investment management assets among individual equity and fixed income securities, mutual funds, exchange-traded funds ("ETFs") and *Independent Managers* (as defined below), in accordance with the investment objectives of the client. However, IAAM may also provide advice about any type of investment held in clients' portfolios.

IAAM also may render non-discretionary investment management services to clients relative to variable life/annuity products that they may own, their individual employer-sponsored retirement plans, and/or 529 plans or other products that may not be held by the client's primary custodian. In so doing, IAAM either directs or recommends the allocation of client assets among the various investment options that are available with the product. Client assets are maintained at the specific insurance company or custodian designated by the product.

IAAM tailors its advisory services to the individual needs of clients. IAAM consults with clients initially and on an ongoing basis to determine risk tolerance, time horizon and other factors that may impact the clients' investment needs. IAAM ensures that clients' investments are suitable for their investment needs, goals, objectives and risk tolerance.

Clients are advised to promptly notify IAAM if there are changes in their financial situation or investment objectives or if they wish to impose any reasonable restrictions upon IAAM's management services. Clients may impose reasonable restrictions or mandates on the management of their account (e.g., require that a portion of their assets be invested in socially responsible funds) if, in IAAM's sole discretion, the conditions will not materially impact the performance of a portfolio strategy or prove overly burdensome to its management efforts.

## Use of Independent Managers

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As mentioned above, IAAM recommends that certain clients authorize the active discretionary management of a portion of their assets by and/or among certain independent investment managers ("*Independent Managers*"), based upon the stated investment objectives of the client. The terms and conditions under which the client engages the *Independent Managers* are set forth in a separate written agreement between IAAM or the client and the designated *Independent Managers*. IAAM renders services to the client relative to the discretionary selection of *Independent Managers*. IAAM also monitors and reviews the account performance and the client's investment objectives. IAAM receives an annual advisory fee which is based upon a percentage of the market value of the assets being managed by the designated *Independent Managers*.

When selecting an *Independent Manager* for a client, IAAM reviews information about the *Independent Manager* such as its disclosure brochure and/or material supplied by the *Independent Manager* or independent third parties for a description of the *Independent Manager's* investment strategies, past

performance and risk results to the extent available. Factors that IAAM considers in recommending an *Independent Manager* include the client's stated investment objectives, management style, performance, reputation, financial strength, reporting, pricing, and research. The investment management fees charged by the designated *Independent Managers*, together with the fees charged by the corresponding designated broker-dealer/custodian of the client's assets, may be exclusive of, and in addition to, IAAM's investment advisory fee set forth above. As discussed above, the client may incur additional fees than those charged by IAAM, the designated *Independent Managers*, and corresponding broker-dealer and custodian.

In addition to IAAM's written disclosure brochure, the client also receives the written disclosure brochure of the designated *Independent Managers*. Certain *Independent Managers* may impose more restrictive account requirements and varying billing practices than IAAM. In such instances, IAAM may alter its corresponding account requirements and/or billing practices to accommodate those of the *Independent Managers*.

If IAAM refers a client to an *Independent Manager* where IAAM's compensation is included in the advisory fee charged by such *Independent Manager* and the client engages the *Independent Manager*, IAAM is compensated for its services by receipt of a fee to be paid directly by the *Independent Manager* to IAAM in accordance with the requirements of Rule 206(4)-3 of the Investment Advisers Act of 1940, as amended, and any corresponding state securities laws, rules, regulations, or requirements. Any such fee is paid solely from the *Independent Manager's* investment management fee, and does not result in any additional charge to the client.

### **Sponsor and Manager of Wrap Program**

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IAAM is the sponsor and manager of the IAAM Wrap Fee Program (the "*Program*"), a wrap fee program. In the event the client participates in the *Program*, IAAM provides its investment management services and arranges for brokerage transactions under a single annualized fee. Participants in the *Program* may pay a higher aggregate fee than if investment management and brokerage services are purchased separately. A complete description of the *Program's* terms and conditions (including fees) are contained in the *Program's* wrap fee brochure. There is no material difference between the strategies IAAM uses to manage wrap accounts and those it uses to manage non-wrap accounts.

## Item 5. Fees and Compensation

IAAM offers its services on a fee basis, which may include hourly and/or fixed fees, as well as fees based upon assets under management. Additionally, certain of IAAM's *Supervised Persons*, in their individual capacities, may offer securities brokerage services and insurance products under a commission arrangement.

### Financial Planning and Consulting Fees

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IAAM may charge a fixed fee and/or hourly fee for financial planning and consulting services. These fees are negotiable, but generally range from \$500 to \$7,500 on a fixed fee basis and/or from \$100 to \$250 on an hourly rate basis, depending upon the level and scope of the services and the professional rendering the financial planning and/or the consulting services. If the client engages IAAM for additional investment advisory services, IAAM may offset or discount all or a portion of its fees for those services based upon the amount paid for the financial planning and/or consulting services.

Prior to engaging IAAM to provide financial planning and/or consulting services, the client is required to enter into a written agreement with IAAM setting forth the terms and conditions of the engagement. Generally, IAAM requires one-half of the financial planning or consulting fee (estimated hourly or fixed) payable upon entering the written agreement. The balance is generally due upon delivery of the financial plan or completion of the agreed upon services.

### Investment Management Fee

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IAAM provides investment management services for an annual fee based upon a percentage of the market value of the assets being managed by IAAM. IAAM's annual fee is exclusive of, and in addition to brokerage commissions, transaction fees, and other related costs and expenses which are incurred by the client. The firm does not, however, receive any portion of these commissions, fees, and costs. IAAM's annual fee is prorated and charged monthly or quarterly in arrears or advance, as set forth in each *Agreement*, based upon the average daily balance of the assets for the previous month or quarter. Alternatively, the firm's fee may be prorated and charged monthly or quarterly in arrears, based upon the value of the assets on the last day of the previous month or quarter. The annual fee for the firm's services shall vary (between 0.50% and 2.00%), depending upon the market value of the assets under management and the type of investment management services to be rendered.

IAAM, in its sole discretion, may negotiate to charge a lesser management fee based upon certain criteria (i.e., anticipated future earning capacity, anticipated future additional assets, dollar amount of assets to be managed, related accounts, account composition, pre-existing client, account retention, *pro bono* activities, etc.).

## **Fees Charged by Financial Institutions**

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As further discussed in response to Item 12 (below), IAAM generally recommends that clients utilize the brokerage and clearing services of Royal Alliance Associates, Inc. ("*Royal*") and the custodial services of National Financial Services, LLC ("*NFS*") for investment management accounts.

IAAM may only implement its investment management recommendations after the client has arranged for and furnished IAAM with all information and authorization regarding accounts with appropriate financial institutions. Financial institutions include, but are not limited to, *NFS*, *Royal*, any other broker-dealer recommended by IAAM, broker-dealer directed by the client, trust companies, banks etc. (collectively referred to herein as the "*Financial Institutions*").

Clients may incur certain charges imposed by the *Financial Institutions* and other third parties such as fees charged by *Independent Managers*, custodial fees, charges imposed directly by a mutual fund or ETF in the account, which are disclosed in the fund's prospectus (e.g., fund management fees and other fund expenses), deferred sales charges, odd-lot differentials, transfer taxes, wire transfer and electronic fund fees, and other fees and taxes on brokerage accounts and securities transactions. Additionally, for assets outside of any wrap fee programs, clients may incur brokerage commissions and transaction fees. Such charges, fees and commissions are exclusive of and in addition to IAAM's fee.

IAAM's *Agreement* and the separate agreement with any *Financial Institutions* may authorize IAAM or *Independent Managers* to debit the client's account for the amount of IAAM's fee and to directly remit that management fee to IAAM or the *Independent Managers*. Any *Financial Institutions* recommended by IAAM have agreed to send a statement to the client, at least quarterly, indicating all amounts disbursed from the account including the amount of management fees paid directly to IAAM. Alternatively, clients may elect to have IAAM send an invoice for payment.

## **Fees for Management During Partial Quarters/Months of Service**

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For the initial period of investment management services, the fees are calculated on a *pro rata* basis.

The *Agreement* between IAAM and the client will continue in effect until terminated by either party pursuant to the terms of the *Agreement*. IAAM's fees are prorated through the date of termination and any remaining balance is charged or refunded to the client, as appropriate.

Clients may make additions to and withdrawals from their account at any time, subject to IAAM's right to terminate an account. Additions may be in cash or securities provided that IAAM reserves the right to liquidate any transferred securities or decline to accept particular securities into a client's account. Clients may withdraw account assets on notice to IAAM, subject to the usual and customary securities settlement procedures. However, IAAM designs its portfolios as long-term investments and the withdrawal of assets may impair the achievement of a client's investment objectives. IAAM may consult with its clients about the options and ramifications of transferring securities. However, clients are advised



that when transferred securities are liquidated, they are subject to transaction fees, fees assessed at the mutual fund level (i.e. contingent deferred sales charge) and/or tax ramifications.

If assets are deposited into or withdrawn from an account after the inception of a quarter or month, the fee payable with respect to such assets will not be adjusted or prorated based on the number of days remaining in the quarter or month.

### **Commissions or Sales Charges for Recommendations of Securities**

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Clients can engage certain persons associated with IAAM (but not IAAM) to render securities brokerage services under a commission arrangement. Under this arrangement, clients may implement securities transactions through certain of IAAM's *Supervised Persons* in their respective individual capacities as registered representatives of *Royal*, an SEC registered broker-dealer and member of FINRA. *Royal* may charge brokerage commissions to effect these securities transactions and thereafter, a portion of these commissions may be paid by *Royal* to such *Supervised Persons*. Prior to effecting any transactions clients are required to enter into a new account agreement with *Royal*. The brokerage commissions charged by *Royal* may be higher or lower than those charged by other broker-dealers. In addition, certain of IAAM's *Supervised Persons* or the firm may also receive ongoing 12b-1 fees for mutual fund purchases from the mutual fund company during the period that the client maintains the mutual fund investment. IAAM may recommend no-load funds.

A conflict of interest exists to the extent that IAAM recommends the purchase of securities where IAAM's *Supervised Persons* receive commissions or other additional compensation as a result of IAAM's recommendations. IAAM has procedures in place to ensure that any recommendations made by such *Supervised Persons* are in the best interest of clients.

For accounts covered by ERISA (and such others that IAAM, in its sole discretion deems appropriate), IAAM provides its investment advisory services on a fee-offset basis. In this scenario, IAAM may offset its fees by an amount equal to the aggregate commissions and 12b-1 fees earned by IAAM's *Supervised Persons* in their individual capacities as registered representatives of *Royal*. Specifically, ERISA accounts are charged the 12b-1 fee then credited in an amount equal to the aggregate 12b-1 fees.

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

IAAM does not provide any services for performance-based fees. Performance-based fees are those based on a share of capital gains on or capital appreciation of the assets of a client.

## Item 7. Types of Clients

IAAM generally provides its services to individuals. However, the firm also provides advice to pension and profit sharing plans, trusts, estates, charitable organizations, corporations and business entities.

### Minimum Account Size

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As a condition for starting and maintaining a relationship, IAAM generally imposes a minimum portfolio size of \$25,000. The firm, in its sole discretion, may accept clients with smaller portfolios based upon certain criteria including anticipated future earning capacity, anticipated future additional assets, dollar amount of assets to be managed, related accounts, account composition, pre-existing client, account retention, and *pro bono* activities. IAAM only accepts clients with less than the minimum portfolio size if, in the sole opinion of IAAM, the smaller portfolio size will not cause a substantial increase of investment risk beyond the client's identified risk tolerance. The firm may aggregate the portfolios of family members to meet the minimum portfolio size.

Additionally, certain *Independent Managers* may impose more restrictive account requirements and varying billing practices than IAAM. In such instances, IAAM may alter its corresponding account requirements and/or billing practices to accommodate those of the *Independent Managers*.

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

### Investment Strategies and Methods of Analysis

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IAAM utilizes a disciplined process to develop specific asset allocation models for its clients. A majority of clients are placed in either a tactical or strategic portfolio. However, clients may have assets allocated to both strategies.

IAAM is a firm subscriber to the use of strategic asset allocation as a means of building realistic estimates for projected returns, standard deviations and correlations among major asset classes. The firm's goal is to create allocations that will require fewer changes over time especially with respect to the major asset allocations. IAAM generally utilizes a mix of individual equity, fixed income and alternative mutual funds and ETFs to build its models.

The firm employs a combination of returns-based statistical analysis, as well as qualitative analysis, of various investment management firms to develop its approved list of mutual funds and ETFs. Some of the key performance factors IAAM focuses on include overall style metrics and consistency, risk reward track records, the manager's ability to effectively capture market performance, their ability to generate excess return over the appropriate benchmarks and their ability to limit overall tracking error versus the appropriate benchmarks. IAAM also considers qualitative factors including the depth and breadth of the management team as well as the management tenure. IAAM prefers team oriented firms that have significant management and research depth along with a highly disciplined investment process.

While IAAM does subscribe to strategic asset allocation, at the same time, the firm believes in incorporating a tactical asset allocation overlay to reflect cyclical and secular forces in the global economy. There are a number of economic indicators which IAAM closely watches to help it formulate its tactical investment strategy with respect to its model allocations. IAAM follows a wide array of economic and company statistics to develop a macro view of the economy as well as a bottoms-up micro economic view of individual industry conditions. In addition to its fundamental analysis, IAAM also utilizes several technical analysis systems to help determine market trends. This analysis is also factored into its tactical investment strategy.

Fundamental analysis involves the fundamental financial condition and competitive position of a company. IAAM will analyze the financial condition, capabilities of management, earnings, new products and services, as well as the company's markets and position amongst its competitors in order to determine the recommendations made to clients. The primary risk in using fundamental analysis is that while the overall health and position of a company may be good, market conditions may negatively impact the security.

Technical analysis involves the analysis of past market data rather than specific company data in determining the recommendations made to clients. Technical analysis may involve the use of charts to identify market patterns and trends which may be based on investor sentiment rather than the

fundamentals of the company. The primary risk in using technical analysis is that spotting historical trends may not help to predict such trends in the future. Even if the trend will eventually reoccur, there is no guarantee that IAAM will be able to accurately predict such a reoccurrence.

The firm follows a disciplined rebalancing methodology on a percentage variance and calendar year basis in an effort to control the overall risk profile of each allocation. The firm seeks to impose a simple percentage variance of 25% or greater in any one asset class as a trigger for rebalancing in an attempt to effectively control risk without incurring substantial trading costs. All portfolio and investment manager performance is tracked and analyzed monthly.

In addition, while most clients are either in the firm's tactical or strategic strategies as set forth above, a small group of the firm's investment adviser representatives may use a different strategy that focuses on REITs, individual equities, and other investments. In these circumstances, the strategies used by these representatives will be done in accordance with the client's investment objectives.

### **Risks of Loss**

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#### *Mutual Funds and ETFs*

An investment in a mutual fund or ETF involves risk, including the loss of principal. Mutual fund and ETF shareholders are necessarily subject to the risks stemming from the individual issuers of the fund's underlying portfolio securities. Such shareholders are also liable for taxes on any fund-level capital gains, as mutual funds and ETFs are required by law to distribute capital gains in the event they sell securities for a profit that cannot be offset by a corresponding loss.

Shares of mutual funds are generally distributed and redeemed on an ongoing basis by the fund itself or a broker acting on its behalf. The trading price at which a share is transacted is equal to a fund's stated daily per share net asset value ("NAV"), plus any shareholders fees (e.g., sales loads, purchase fees, redemption fees). The per share NAV of a mutual fund is calculated at the end of each business day, although the actual NAV fluctuates with intraday changes to the market value of the fund's holdings. The trading prices of a mutual fund's shares may differ significantly from the NAV during periods of market volatility, which may, among other factors, lead to the mutual fund's shares trading at a premium or discount to NAV.

Shares of ETFs are listed on securities exchanges and transacted at negotiated prices in the secondary market. Generally, ETF shares trade at or near their most recent NAV, which is generally calculated at least once daily for indexed-based ETFs and more frequently for actively managed ETFs. However, certain inefficiencies may cause the shares to trade at a premium or discount to their pro rata NAV. There is also no guarantee that an active secondary market for such shares will develop or continue to exist. Generally, an ETF only redeems shares when aggregated as creation units (usually 50,000 shares or more).

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## *Market Risks*

The profitability of a portion of IAAM's recommendations may depend to a great extent upon correctly assessing the future course of price movements of stocks and bonds. There can be no assurance that IAAM will be able to predict those price movements accurately.

## *Use of Independent Managers*

IAAM may recommend the use of *Independent Managers* for certain clients. IAAM will continue to do ongoing due diligence of such managers, but such recommendations rely, to a great extent, on the *Independent Managers* ability to successfully implement their investment strategy. In addition, IAAM does not have the ability to supervise the *Independent Managers* on a day-to-day basis other than as previously described in response to Item 4, above.

## *Management Through Similarly Managed Accounts*

For certain clients, IAAM may manage portfolios by allocating portfolio assets among various mutual funds or securities on a discretionary basis using one or more of its proprietary investment strategies (collectively referred to as "*investment strategy*"). In so doing, IAAM buys, sells, exchanges and/or transfers shares of mutual funds or securities based upon the *investment strategy*.

IAAM's management using the *investment strategy* complies with the requirements of Rule 3a-4 of the Investment Company Act of 1940, as amended. Rule 3a-4 provides similarly managed accounts, such as the *investment strategy*, with a safe harbor from the definition of an investment company.

The *investment strategy* may involve an above-average portfolio turnover that could negatively impact upon the net after-tax gain experienced by an individual client. Securities in the *investment strategy* are usually exchanged and/or transferred without regard to a client's individual tax ramifications. Certain investment opportunities that become available to IAAM's clients may be limited. For example, various mutual funds or insurance companies may limit the ability of IAAM to buy, sell, exchange or transfer securities consistent with its *investment strategy*. As further discussed in response to Item 12 (below), IAAM allocates investment opportunities among its clients on a fair and equitable basis.

## *Use of Margin*

To the extent that a client authorizes the use of margin, and margin is thereafter employed by IAAM in the management of the client's investment portfolio, the market value of the client's account and corresponding fee payable by the client to IAAM will not be increased. While the use of margin borrowing can substantially improve returns, such use may also increase the adverse impact to which a client's portfolio may be subject. Borrowings will usually be from securities brokers and dealers and will typically be secured by the client's securities and/or other assets. Under certain circumstances, such a broker-dealer may demand an increase in the collateral that secures the client's obligations and if the client were unable to provide additional collateral, the broker-dealer could liquidate assets held in the account to

satisfy the client's obligations to the broker-dealer. Liquidation in that manner could have extremely adverse consequences. In addition, the amount of the client's borrowings and the interest rates on those borrowings, which will fluctuate, will have a significant effect on the client's profitability.

### *General Risk of Loss*

Investing in securities involves the risk of loss. Clients should be prepared to bear such loss.

### **Item 9. Disciplinary Information**

IAAM is required to disclose the facts of any legal or disciplinary events that are material to a client's evaluation of its advisory business or the integrity of management. IAAM does not have any required disclosures to this Item.



## Item 10. Other Financial Industry Activities and Affiliations

IAAM is required to disclose any relationship or arrangement that is material to its advisory business or to its clients with certain related persons. IAAM has described such relationships and arrangements below.

### Registered Representatives of Broker Dealer

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As discussed above in Item 5, certain of IAAM's *Supervised Persons* are registered representatives of *Royal*.

### Receipt of Insurance Commissions

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Certain of the firm's *Supervised Persons*, in their individual capacities, are licensed insurance agents with various insurance companies, and in such capacity, may recommend on a fully-disclosed basis the purchase of certain insurance-related products. While IAAM does not sell such insurance products to its investment advisory clients, the firm does permit its *Supervised Persons*, in their individual capacities as licensed insurance agents, to sell insurance products to its investment advisory clients. A conflict of interest exists to the extent that IAAM recommends the purchase of insurance products where IAAM's *Supervised Persons* receive insurance commissions or other additional compensation.

### Referrals to Related Certified Public Accountants

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IAAM does not render accounting advice or tax preparation services to its clients. Rather, to the extent that a client requires accounting advice and/or tax preparation services, IAAM, if requested, will recommend the services of a Certified Public Accountant ("CPA"), all of which services shall be rendered independent of IAAM pursuant to a separate agreement between the client and the CPA. Specifically, a limited number of the firm's *Supervised Persons* are CPAs. As discussed above, to the extent that the CPA provides accounting and/or tax preparation services to any of IAAM's clients, all such services shall be performed by CPA, in its separate capacity, independent of IAAM, for which services IAAM shall not receive any portion of the fees charged by CPA, referral or otherwise. Although IAAM shall not receive referral fees from CPA, these *Supervised Persons* are entitled to receive fees for their accounting services.

### Affiliation with Other Investment Adviser

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Certain of the firm's *Supervised Persons*, in their individual capacities, are also dually-licensed investment adviser representatives with other advisory firms, and in such capacity, may recommend, on a fully-disclosed basis, the investment advisory services of these companies. A conflict of interest exists to the extent that IAAM recommends the other firm's investment advisory services where IAAM's *Supervised Persons* receive a portion of the investment advisory fees or other additional compensation.

## **Referrals to Related Attorneys**

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One of IAAM's supervised persons is a licensed practicing attorney admitted to the Bar of the State of Pennsylvania. This *Supervised Person* maintains a legal practice, separate and distinct from IAAM's investment advisory activities. No portion of the services rendered by IAAM to clients should be interpreted as legal advice. Rather, clients should defer to the advice of their own attorney.

IAAM may, from time to time, recommend certain of its clients utilize the *Supervised Person* for various legal services. This individual shall render these services independently of IAAM. IAAM shall not receive any portion of the fees charged (referral or otherwise) by this individual for the services rendered.

## **Fees from Independent Managers**

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As discussed above, IAAM recommends that certain clients authorize the active discretionary management of a portion of their assets by and/or among certain *Independent Managers*. In certain circumstances IAAM's compensation is included in the advisory fee charged by such *Independent Managers*. There may be a conflict of interest to choose such *Independent Managers*.

## Item 11. Code of Ethics

IAAM and persons associated with IAAM ("Associated Persons") are permitted to buy or sell securities that it also recommends to clients consistent with IAAM's policies and procedures.

IAAM has adopted a code of ethics that sets forth the standards of conduct expected of its associated persons and requires compliance with applicable securities laws ("*Code of Ethics*"). In accordance with Section 204A of the Investment Advisers Act of 1940 (the "Advisers Act"), its *Code of Ethics* contains written policies reasonably designed to prevent the unlawful use of material non-public information by IAAM or any of its associated persons. The *Code of Ethics* also requires that certain of IAAM's personnel (called "*Access Persons*") report their personal securities holdings and transactions and obtain pre-approval of certain investments such as initial public offerings and limited offerings.

Unless specifically permitted in IAAM's *Code of Ethics*, none of IAAM's *Access Persons* may effect for themselves or for their immediate family (i.e., spouse, minor children, and adults living in the same household as the *Access Person*) any transactions in a security which is being actively purchased or sold, or is being considered for purchase or sale, on behalf of any of IAAM's clients.

When IAAM is purchasing or considering for purchase any security on behalf of a client, no *Access Person* may effect a transaction in that security prior to the completion of the purchase or until a decision has been made not to purchase such security. Similarly, when IAAM is selling or considering the sale of any security on behalf of a client, no *Access Person* may effect a transaction in that security prior to the completion of the sale or until a decision has been made not to sell such security. These requirements are not applicable to: (i) direct obligations of the Government of the United States; (ii) money market instruments, bankers' acceptances, bank certificates of deposit, commercial paper, repurchase agreements and other high quality short-term debt instruments, including repurchase agreements; (iii) shares issued by mutual funds or money market funds; and (iv) shares issued by unit investment trusts that are invested exclusively in one or more mutual funds.

Clients and prospective clients may contact IAAM to request a copy of its *Code of Ethics*.

## Item 12. Brokerage Practices

As discussed above, in Item 5, IAAM generally recommends that clients utilize the brokerage and clearing services of *Royal* and custodial services of *NFS*.

Factors which IAAM considers in recommending *NFS*, *Royal* or any other broker-dealer to clients include their respective financial strength, reputation, execution, pricing, research and service. The commissions and/or transaction fees charged by these firms may be higher or lower than those charged by other *Financial Institutions*.

The commissions paid by IAAM's clients comply with IAAM's duty to obtain "best execution." Clients may pay commissions that are higher than another qualified *Financial Institution* might charge to effect the same transaction where IAAM determines that the commissions are reasonable in relation to the value of the brokerage and research services received. In seeking best execution, the determinative factor is not the lowest possible cost, but whether the transaction represents the best qualitative execution, taking into consideration the full range of a *Financial Institution's* services, including among others, the value of research provided, execution capability, commission rates, and responsiveness. IAAM seeks competitive rates but may not necessarily obtain the lowest possible commission rates for client transactions.

IAAM periodically and systematically reviews its policies and procedures regarding its recommendation of *Financial Institutions* in light of its duty to obtain best execution.

The client may direct IAAM in writing to use a particular *Financial Institution* to execute some or all transactions for the client. In that case, the client will negotiate terms and arrangements for the account with that *Financial Institution*, and IAAM will not seek better execution services or prices from other *Financial Institutions* or be able to "batch" client transactions for execution through other *Financial Institutions* with orders for other accounts managed by IAAM (as described below). As a result, the client may pay higher commissions or other transaction costs or greater spreads, or receive less favorable net prices, on transactions for the account than would otherwise be the case. Subject to its duty of best execution, IAAM may decline a client's request to direct brokerage if, in IAAM's sole discretion, such directed brokerage arrangements would result in additional operational difficulties or violate restrictions imposed by other broker-dealers (as further discussed below).

Transactions for each client generally will be effected independently, unless IAAM decides to purchase or sell the same securities for several clients at approximately the same time. IAAM may (but is not obligated to) combine or "batch" such orders to obtain best execution, to negotiate more favorable commission rates, or to allocate equitably among IAAM's clients differences in prices and commissions or other transaction costs that might have been obtained had such orders been placed independently. Under this procedure, transactions will generally be averaged as to price and allocated among IAAM's clients pro rata to the purchase and sale orders placed for each client on any given day. To the extent that IAAM determines to aggregate client orders for the purchase or sale of securities, including securities in which IAAM's *Supervised Persons* may invest, IAAM generally does so in accordance with applicable

rules promulgated under the Advisers Act and no-action guidance provided by the staff of the U.S. Securities and Exchange Commission. IAAM does not receive any additional compensation or remuneration as a result of the aggregation. In the event that IAAM determines that a prorated allocation is not appropriate under the particular circumstances, the allocation will be made based upon other relevant factors, which may include: (i) when only a small percentage of the order is executed, shares may be allocated to the account with the smallest order or the smallest position or to an account that is out of line with respect to security or sector weightings relative to other portfolios, with similar mandates; (ii) allocations may be given to one account when one account has limitations in its investment guidelines which prohibit it from purchasing other securities which are expected to produce similar investment results and can be purchased by other accounts; (iii) if an account reaches an investment guideline limit and cannot participate in an allocation, shares may be reallocated to other accounts (this may be due to unforeseen changes in an account's assets after an order is placed); (iv) with respect to sale allocations, allocations may be given to accounts low in cash; (v) in cases when a pro rata allocation of a potential execution would result in a *de minimis* allocation in one or more accounts, IAAM may exclude the account(s) from the allocation; the transactions may be executed on a pro rata basis among the remaining accounts; or (vi) in cases where a small proportion of an order is executed in all accounts, shares may be allocated to one or more accounts on a random basis.

Consistent with obtaining best execution, brokerage transactions may be directed to certain broker-dealers in return for investment research products and/or services which assist IAAM in its investment decision-making process. Such research generally will be used to service all of IAAM's clients, but brokerage commissions paid by one client may be used to pay for research that is not used in managing that client's portfolio. The receipt of investment research products and/or services as well as the allocation of the benefit of such investment research products and/or services poses a conflict of interest because IAAM does not have to produce or pay for the products or services.

### **Commissions or Sales Charges for Recommendations of Securities**

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As discussed above, certain *Supervised Persons* in their respective individual capacities, are registered representatives of *Royal*. These *Supervised Persons* are subject to FINRA Rule 3040 which restricts registered representatives from conducting securities transactions away from their broker-dealer unless *Royal* provides written consent. Therefore, clients are advised that certain *Supervised Persons* may be restricted to conducting securities transactions through *Royal* unless they first secure written consent from *Royal* to execute securities transactions through a different broker-dealer. Absent such written consent or separation from *Royal*, these *Supervised Persons* are prohibited from executing securities transactions through any broker-dealer other than *Royal* under *Royal's* internal supervisory policies. IAAM is cognizant of its duty to obtain best execution and has implemented policies and procedures reasonably designed in such pursuit.

From time to time, IAAM may sponsor conferences for its employees and/or clients. Such conferences may be paid for by mutual funds that IAAM recommends to its clients, either directly or through a wrap fee

program. A conflict of interest exists to the extent that the firm or its *Supervised Persons* recommend the purchase of a mutual fund that subsidize a conference sponsored by IAAM.

IAAM's *Supervised Persons*, in their individual capacities as registered representatives of *Royal* may, from time to time, receive incentive awards for the recommendation and introduction of investment products, or 12b-1 distribution fees from investment companies in connection with the placement of clients' funds into certain investment companies. Therefore, the receipt of this compensation may affect IAAM's objectivity in recommending products to its clients.

*Royal* sponsors the Elite Focus Program. In this program, selected vendors will be invited to pay additional marketing fees to *Royal* for its enhanced marketing and distribution efforts. As part of such compensation, such vendors will, at no additional charge, be invited to participate in *Royal's* educational and sales seminar's included in *Royal's* "Sourcebook" publication, and will also be granted access to lists containing *Royal's* registered representatives, such as IAAM's *Supervised Persons* and marketing information. In addition, ticket charges for purchasing such funds may be reduced or waived. A list of *Royal's* Elite Focus Program members is available to clients upon request.

### **Software and Support Provided by Financial Institutions**

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Although not a material consideration when determining whether to recommend that a client utilize the services of *NFS* or *Royal*, IAAM may receive from *NFS* or *Royal*, without cost to IAAM, computer software and related systems support, which allow IAAM to better monitor client accounts maintained at these firms. IAAM may receive the software and related support without cost because IAAM renders investment management services to clients that maintain assets at these firms. The software and related systems support may benefit IAAM, but not its clients directly. In fulfilling its duties to its clients, IAAM endeavors at all times to put the interests of its clients first. Clients should be aware, however, that IAAM's receipt of economic benefits from a broker-dealer creates a conflict of interest since these benefits may influence IAAM's choice of broker-dealer or custodian over another firm that does not furnish similar software, systems support, or services.

### Item 13. Review of Accounts

For those clients to whom IAAM provides investment management services, IAAM monitors those portfolios as part of an ongoing process while regular account reviews are conducted on at least a quarterly basis. For those clients to whom IAAM provides financial planning and/or consulting services, reviews are conducted on an “as needed” basis. Such reviews are conducted by one of IAAM's investment adviser representatives. All investment advisory clients are encouraged to discuss their needs, goals, and objectives with IAAM and to keep IAAM informed of any changes thereto. IAAM contacts ongoing investment advisory clients at least annually to review its previous services and/or recommendations and to discuss the impact resulting from any changes in the client's financial situation and/or investment objectives.

Unless otherwise agreed upon, clients are provided with transaction confirmation notices and regular summary account statements directly from the broker-dealer or custodian for the client accounts.

## Item 14. Client Referrals and Other Compensation

IAAM may receive economic benefits from non-clients for providing advice or other advisory services to clients. This type of relationship poses a conflict of interest and any such relationship is disclosed in response to Item 12, above.

In addition, IAAM is required to disclose any direct or indirect compensation that it provides for client referrals.

If a client is introduced to IAAM by either an unaffiliated or an affiliated solicitor, IAAM may pay that solicitor a referral fee in accordance with the requirements of Rule 206(4)-3 of the Advisers Act and any corresponding state securities law requirements. Any such referral fee is paid solely from IAAM's investment management fee, and does not result in any additional charge to the client. If the client is introduced to IAAM by an unaffiliated solicitor, the solicitor provides the client with a copy of IAAM's written disclosure brochure which meets the requirements of Rule 204-3 of the Advisers Act and a copy of the solicitor's disclosure statement containing the terms and conditions of the solicitation arrangement including compensation. Any affiliated solicitor of IAAM discloses the nature of his/her relationship to prospective clients at the time of the solicitation and will provide all prospective clients with a copy of IAAM's written disclosure brochure at the time of the solicitation.



### Item 15. Custody

IAAM's *Agreement* and/or the separate agreement with any *Financial Institution* may authorize IAAM through such *Financial Institution* to debit the client's account for the amount of IAAM's fee and to directly remit that management fee to IAAM in accordance with applicable custody rules. For a majority of client accounts, the fees are collected from *NFS*, and then paid to *Royal* who sends the appropriate fees directly to *IAAM*.

The *Financial Institutions* recommended by IAAM have agreed to send a statement to the client, at least quarterly, indicating all amounts disbursed from the account including the amount of management fees paid directly to IAAM. Clients should carefully review the statements sent directly by the *Financial Institutions* and compare them to those received from IAAM, if any.

### Item 16. Investment Discretion

IAAM is given the authority to exercise discretion on behalf of clients. IAAM is considered to exercise investment discretion over a client's account if it can effect transactions for the client without first having to seek the client's consent. IAAM is given this authority through a power-of-attorney included in the agreement between IAAM and the client. Clients may request a limitation on this authority (such as certain securities not to be bought or sold). IAAM takes discretion over the following activities:

- The securities to be purchased or sold;
- The amount of securities to be purchased or sold;
- When transactions are made; and
- The *Independent Managers* to be hired or fired.

### Item 17. Voting Client Securities

IAAM is required to disclose if it accepts authority to vote client securities. IAAM does not vote client securities on behalf of its clients. Clients receive proxies directly from the *Financial Institutions*.

### **Item 18. Financial Information**

IAAM does not require or solicit the prepayment of more than \$1,200 in fees six months or more in advance. In addition, IAAM is required to disclose any financial condition that is reasonably likely to impair its ability to meet contractual commitments to clients. IAAM has no disclosures pursuant to this Item.

## **Investment Advisors Asset Management, LLC**

*a Registered Investment Adviser*

137 North Second Street  
Easton, Pennsylvania 18042

(610) 258-3269

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

Prepared by:

