

# Wrap Fee Brochure

February 28, 2018

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

*a Registered Investment Adviser*

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This wrap fee 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 3, 2017. IAAM has updated Item 9 to reflect that Royal Alliance Associates, Inc. ("*Royal*") also provides forgivable loans to IAAM's *Supervised Persons* who, in their individual capacities, are registered representatives of *Royal*, in connection with their affiliations with *Royal*. IAAM has no other changes to disclose in relation to this Item. The following section was added to Item 9.

*Royal* also provides forgivable loans to some IAAM *Supervised Persons* who, in their individual capacities, are registered representatives of *Royal*, in connection with their affiliations with *Royal*. The amounts of such loans are often significant in relation to the overall revenue earned or compensation received by the *Supervised Persons*. Additional information regarding any such loans provided by *Royal* to a *Supervised Persons* of IAAM is described in each *Supervised Persons*' Form ADV Part 2B (Brochure Supplement), to the extent they receive such benefits.

These benefits are provided to *Supervised Persons* of IAAM in their capacity as registered representatives of *Royal*. The loan payments repayable by the *Supervised Persons* to *Royal* are forgiven over time so there is an incentive for the *Supervised Persons* to maintain their registrations with *Royal*. The *Supervised Persons* have agreed to use their best efforts to maintain client assets and accounts with *Royal*. Further, the *Supervised Persons*' rights to additional loan payments pursuant to their loan agreements with *Royal* are contingent on their continued affiliation with *Royal* and the continuation of *Royal* as the broker-of-record for the assets and accounts managed or otherwise overseen by the *Supervised Persons* at *Royal*. Notwithstanding the foregoing, the forgiveness is not tied to any amount of securities transactions made by the *Supervised Person* or assets held in advisory accounts with *Royal*. As such, the receipt of such benefits by such *Supervised Persons* creates conflicts of interest relating to IAAM's advisory business because it creates a financial incentive for such *Supervised Persons* to recommend clients maintain their advisory or brokerage accounts with *Royal*. IAAM seeks to mitigate these conflicts of interest by evaluating *Royal*'s services to determine that the recommendation to use *Royal* is based on the benefits that such services provide to clients, rather than the benefits received by any particular *Supervised Person*. As set forth above, the Firm periodically and systematically reviews its policies and procedures regarding its recommendation of *Financial Institutions* in light of its duty to obtain best execution, including its recommendation of *Royal*. However, clients should be aware of this conflict and take it into consideration in making a decision whether to custody their assets with *Royal* through IAAM, or open a brokerage account with a *Supervised Person* as registered representative at *Royal*.

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## Item 4. Services, Fees, and Compensation

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.

The IAAM Wrap Fee Program (the "Program") is an investment advisory program sponsored by IAAM. The Program provides clients with the ability to trade in certain investment products without incurring separate brokerage commissions or transaction charges.

To join the Program, a client must:

- (1) Complete an investor profile that describes the client's financial needs, investment objectives, time horizon, and risk tolerance, as well as any other factors relevant to the client's specific financial situation and any other supporting documentation the Program requires;
- (2) Complete the investment advisory wrap fee agreement (the "*Agreement*") with IAAM;
- (3) Complete a new account agreement with Royal Alliance Associates, Inc. ("*Royal*"), National Financial Services, LLC ("*NFS*") and/or another broker dealer IAAM approves for participation in the Program ("*Financial Institution*"); and
- (4) Open a securities brokerage account with the *Financial Institution* and deposit those assets designated for participation in the Program into the account.

As detailed in Item 6, after an analysis of any information provided by the client to IAAM, IAAM assists the client in developing an appropriate investment strategy for the assets in their accounts. Thereafter, all clients are encouraged to discuss their needs, goals, and objectives with IAAM and to keep IAAM informed of any changes thereto. IAAM contacts ongoing clients at least annually to review its previous services and/or recommendations and to determine whether changes should be made to their investment strategy.

### Management of Your Portfolio

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All clients in the Program grant IAAM discretionary authority to buy, sell, and otherwise trade in the type of securities described in Item 6 for their accounts, and to liquidate previously-purchased securities that the client has transferred to their accounts. Assets are managed by one of IAAM's investment adviser representatives.

### Fees for the Program

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Clients in the Program pay a single annualized fee for participation in the Program (the "*Program Fee*"). The *Program Fee* is prorated and charged monthly or quarterly, and in arrears, 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 *Program Fee* varies (between 0.50% and 2.00%) depending upon the market value of the assets under management and the type of investment management services rendered.

### Fee Discretion

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IAAM, in its sole discretion, may negotiate to charge a lesser *Program 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.).

### Fee Comparison

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Under the Program, clients receive both investment advisory services and the execution of transactions for a single, combined annualized fee, the *Program Fee*. Participation in the Program may cost the client more or less than purchasing such services separately. The number of transactions made in the client's accounts, as well as the commissions charged for each transaction, determines the relative cost of the Program versus paying for execution on a per transaction basis and paying a separate fee for advisory services. The *Program Fee* may be higher or lower than fees charged by other sponsors of comparable investment advisory programs. Because the Firm pays for the brokerage fees, the Firm has an incentive to engage in less transactions, or transactions that cost less to the Firm, and choose Independent Managers whose fees fall outside of the Program Fee.

### Other Charges

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Clients incur certain charges imposed by third parties in addition to the *Program Fee* such as IRA custodial and closeout fees, charges imposed directly by a mutual fund or exchange-traded fund ("ETF") in the account, which is disclosed in the fund's prospectus (e.g., fund management fees and other fund expenses), margin costs, mark-ups or mark-downs priced in to fixed income products by the broker-dealer, fees and commission for assets not held with *Royal* or *NFS*, 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.

## Item 5. Account Requirements and Types of Clients

Program participants are generally individuals. However, the firm also provides advice to pension and profit sharing plans, trusts, estates, charitable organizations, corporations and business entities.

### Minimums

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As a condition for participating in the Program, IAAM generally imposes a minimum account size of \$25,000. IAAM, 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. IAAM may aggregate the portfolios of family members to meet the minimum portfolio size.

## Item 6. Portfolio Manager Selection and Evaluation

IAAM acts as the sponsor and portfolio manager to the Program. Certain other wrap programs involve the services of multiple parties in these capacities, which involve additional conflicts of interest that the sponsor would be required to disclose in this section.

### Advisory Business

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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.

As of January 31, 2018, IAAM had \$471,655,842 in assets under management, \$468,945,694 of which was managed on a discretionary basis and \$2,710,148 of which was managed on a non-discretionary basis.

This Wrap Fee 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.

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

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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.

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

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IAAM utilizes a disciplined process to develop specific asset allocation models for its clients. Assets are generally allocated among one or more of the firm's tactical, strategic, core equity or balanced core equity portfolios.

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. For IAAM's core equity portfolio, the firm targets publicly-traded companies with an extended history of paying strong dividends and the balanced core equity portfolio is comprised of a combination of equities and fixed income mutual funds.

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, ETFs and equities. 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 strategies.

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.



### **Voting of Client Securities**

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

### **Item 7. Client Information Provided to Portfolio Managers**

IAAM acts as the sponsor and portfolio manager to the Program. Certain wrap programs involve the services of multiple parties in these capacities. In those circumstances, the sponsor is required to disclose how and what type of information about clients that it provides to portfolio managers. IAAM has no disclosures to make under this section.

## **Item 8. Client Contact with Portfolio Managers**

There are no restrictions on a clients' ability to contact and consult with IAAM.

## Item 9. Additional Information

### Disciplinary Information

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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.

### Other Financial Industry Activities and Affiliations

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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*

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 Alliance Associates, Inc. ("*Royal*"), an SEC registered broker-dealer and member of FINRA. *Royal* charges brokerage commissions to effect these securities transactions and thereafter, a portion of these commissions can 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 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 recommends no-load funds.

A conflict of interest exists to the extent that a Supervised Person of IAAM recommends the purchase or sale of securities through a brokerage relationship where that *Supervised Persons* receives commissions or other additional compensation as a result of that recommendation (the "Brokerage Relationship"). The Firm has procedures in place to ensure that any recommendations made by such Supervised Persons to engage in the Brokerage Relationship are in the best interest of that client. Because the Supervised Persons may receive compensation in connection with the sale of mutual funds in the Brokerage Relationship, a conflict of interest exists as such Supervised Persons, may have an incentive to recommend more expensive mutual fund share classes to clients where such Supervised Persons earn more compensation with respect to the sale of such mutual fund share classes. Clients should understand that the investments made in the Brokerage Relationship are not receiving advisory services from the Firm. Therefore, the Firm does not have a fiduciary duty over the Brokerage Relationship recommendations. For certain accounts covered by the Employee Retirement Income Security Act of 1974 ("ERISA") and such others that IAAM, in its sole discretion, deems appropriate, IAAM provide its investment advisory services to certain clients on a fee-offset basis. In this scenario, IAAM offsets its fees

by an amount equal to the aggregate commissions and 12b-1 fees earned by the Firm's Supervised Persons in their individual capacities as registered representatives of Royal.

### *Receipt of Insurance Commissions*

Certain of the firm's *Supervised Persons*, in their individual capacities, are licensed insurance agents with various insurance companies, and in such capacity, 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*

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*

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, 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*

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 will, 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.

### Code of Ethics

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IAAM has adopted a code of ethics in compliance with applicable securities laws ("*Code of Ethics*") that sets forth the standards of conduct expected of its *Supervised Persons*. IAAM's *Code of Ethics* contains written policies reasonably designed to prevent certain unlawful practices such as the use of material non-public information by the Firm or any of its *Supervised Persons* and the trading by the same of securities ahead of clients in order to take advantage of pending orders.

The *Code of Ethics* also requires certain of IAAM's personnel (called "*Access Persons*") to report their personal securities holdings and transactions and obtain pre-approval of certain investments (e.g., initial public offerings, limited offerings). However, IAAM *Supervised Persons* are permitted to buy or sell securities that it also recommends to clients if done in a manner consistent with the Firm's policies and procedures. This *Code of Ethics* has been established recognizing that some securities trade in sufficiently broad markets to permit transactions by *Access Persons* to be completed without any appreciable impact on the markets of such securities. Therefore, under certain limited circumstances, exceptions may be made to the policies stated below.

When the Firm is engaging in or considering a transaction in any security on behalf of a client where there may be a potential for conflict, no *Access Person* may knowingly effect for themselves or for their immediate family (i.e., spouse, minor children and adults living in the same household as the *Access Person*) a transaction in that security unless:

- the transaction has been completed;
- the transaction for the *Access Person* is completed as part of a batch trade with clients; or
- a decision has been made not to engage in the transaction for the client.

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*.

### Review of Accounts and General Reports

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IAAM monitors assets as part of an ongoing process while regular account reviews are conducted on at least a quarterly basis.

Clients are provided with transaction confirmation notices and regular summary account statements directly from the *Financial Institutions* for assets.

### Client Referrals and Other Compensation

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IAAM receives 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 below.

IAAM generally recommends that clients utilize the brokerage and clearing services of *Royal*, and the custodial services of *NFS* for investment management accounts.

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*.

IAAM has a duty to obtain “best execution” when recommending broker-dealers to clients. Clients do not typically pay commission through this wrap program, but may pay commissions or other expenses as described herein that are higher than another qualified *Financial Institution* might charge to effect the same transaction where IAAM determines that the expenses 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.

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*

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 will 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* can, 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 will 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*

Although not a material consideration when determining whether to recommend that a client utilize the services of *NFS* or *Royal*, IAAM receives 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 receives 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.

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

### *Benefits Received by Registered Representatives of Broker Dealer*

*Royal* also provides forgivable loans to some IAAM *Supervised Persons* who, in their individual capacities, are registered representatives of *Royal*, in connection with their affiliations with *Royal*. The amounts of such loans are often significant in relation to the overall revenue earned or compensation received by the *Supervised Persons*. Additional information regarding any such loans provided by *Royal* to a *Supervised Persons* of IAAM is described in each *Supervised Persons' Form ADV Part 2B (Brochure Supplement)*, to the extent they receive such benefits.

These benefits are provided to *Supervised Persons* of IAAM in their capacity as registered representatives of *Royal*. The loan payments repayable by the *Supervised Persons* to *Royal* are forgiven over time so there is an incentive for the *Supervised Persons* to maintain their registrations with *Royal*.

The *Supervised Persons* have agreed to use their best efforts to maintain client assets and accounts with *Royal*. Further, the *Supervised Persons'* rights to additional loan payments pursuant to their loan agreements with *Royal* are contingent on their continued affiliation with *Royal* and the continuation of *Royal* as the broker-of-record for the assets and accounts managed or otherwise overseen by the *Supervised Persons* at *Royal*. Notwithstanding the foregoing, the forgiveness is not tied to any amount of securities transactions made by the *Supervised Person* or assets held in advisory accounts with *Royal*. As such, the receipt of such benefits by such *Supervised Persons* creates conflicts of interest relating to IAAM's advisory business because it creates a financial incentive for such *Supervised Persons* to recommend clients maintain their advisory or brokerage accounts with *Royal*. IAAM seeks to mitigate these conflicts of interest by evaluating *Royal's* services to determine that the recommendation to use *Royal* is based on the benefits that such services provide to clients, rather than the benefits received by any particular *Supervised Person*. As set forth above, the Firm periodically and systematically reviews its policies and procedures regarding its recommendation of *Financial Institutions* in light of its duty to obtain best execution, including its recommendation of *Royal*. However, clients should be aware of this conflict and take it into consideration in making a decision whether to custody their assets with *Royal* through IAAM, or open a brokerage account with a *Supervised Person* as registered representative at *Royal*.

### **Client Referrals**

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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.

### **Financial Information**

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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**

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