

# Baker Avenue Asset Management, LP

## Form ADV Part 2A Disclosure Brochure

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March 21, 2014

Form ADV, Part 2, our “Disclosure Brochure” or “Brochure” is required by the Investment Advisers Act of 1940. This Brochure provides information about our qualifications and business practices.

If you have any questions about the contents of this Brochure, please contact us at [info@bakerave.com](mailto:info@bakerave.com). The information in this Brochure has not been approved or verified by the United States Securities and Exchange Commission or by any State Securities Regulatory Authority.

We are a registered investment adviser with the Securities and Exchange Commission. Our registration as an Investment Adviser does not imply any level of skill or training. The oral and written communications we provide to you, including this Brochure, is information you use to evaluate us, and other advisers, which are factors in your decision to hire us.

Additional information about our firm and our employees is available to you for free, by using the Securities and Exchange Commission “public disclosure” website. This site is called “Investment Adviser Public Disclosure” and is available at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov). To use Public Disclosure, click the link, type in our Firm Name and search. Click on our name in the search results and you will find our Part 1 and this Part 2.

## **Item 2 – Material Changes**

Baker Avenue updates this document annually, or more frequently in the event of certain material changes.

This section includes “material changes” that have been incorporated in our last delivery or posting of this document on the SEC’s public disclosure website (IAPD) [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).

Pursuant to SEC Rules, we will ensure that you receive a summary of any material 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.

This disclosure document, dated March 21, 2014, includes material changes since the last annual update on March 15, 2013. If you would like another copy of this Brochure, please download it from the SEC website or contact one of our Chief Compliance Officers, Jerry Luff and Hannah Kim at 415-986-1110. Or you may email them at [jl@bakerave.com](mailto:jl@bakerave.com) and [hk@bakerave.com](mailto:hk@bakerave.com).

### Amendment to Item 2 – Material Changes

Hannah Kim and Jerry Luff are Co-CCOs. Jerry’s email address is [jl@bakerave.com](mailto:jl@bakerave.com) and Hannah’s email address is [hk@bakerave.com](mailto:hk@bakerave.com).

### Amendment to Item 4 – Advisory Business

1. Assets under management have been amended to \$968.0m (\$682m on a discretionary basis and \$286.0m on a non-discretionary).
2. Taxable Fixed Income has been changed to Fixed Income.
3. BAAM no longer works with WrapManager, Inc. therefore the description of this program has been removed.
4. Baker Avenue on occasion refers clients to third party managers and the description of these types of referrals has been added.

#### Amendment to Item 5 – Fees and Compensation

1. BAAM no longer works with WrapManager, Inc. therefore the description of the fee structure of this program has been removed.
2. Baker Avenue on occasion refers clients to third party managers and the description of the fee structure for these referrals has been added.

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

1. Taxable Fixed Income has been changed to Fixed Income.

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## Item 4 – Advisory Business

**Baker Avenue Asset Management, LP** is an SEC-registered investment advisor founded in 2004. Principal owner is Simon Baker.

As of December 31, 2014, Baker Avenue managed a total of \$682m on a discretionary basis and \$286m on a non-discretionary basis for a total of \$968.0m.

Baker Avenue Asset Management, LP (Baker Avenue, BAAM) provides portfolio management services to our Clients. We provide our services on an investment discretionary basis and for certain clients (and when requested, only) on a non-discretionary basis. For non-discretionary Clients, it is imperative that BAAM has all necessary contact information to gain your consent/approval to any transaction we may recommend for purchase or sale. If we cannot reach you, for your specific consent, we cannot place any transactions with your custodian / broker or dealer.

Our advisory services are based upon each Client's unique facts and circumstances as they regard general investing or, for certain of our investment products, your suitability will be matched to the particular product or strategy (for example, our Small and Mid Cap Core portfolio).

Services include the following and each is described in more detail in Item 8:

- All Cap Core
- Global Tactical Indexing Strategy
- Small and Mid Cap Core
- Fixed Income
- Blue Chip Income
- Baker Ave Opportunities Fund LP – BAAM is the investment adviser to the Baker Ave Opportunities Fund LP, which is a private hedge fund. Qualified investors who are permitted to subscribe for interests in the Baker Ave Opportunities Fund LP ("the Fund") will become an investing member of the Fund. As the investment adviser that is contracted to provide investment management services to the Fund, BAAM is responsible for all major decisions of the Fund, including, without limitation, amending or changing the Fund's investment objectives, investment strategies, and investment policies or limitations.

### **Services Provided to Introduced Clients of Third Party Firms**

In some cases clients are introduced to BAAM from third party managers through a dual contract relationship. Dual contract clients are clients that have a contract with the third party manager and a separate contract with BAAM. The investment styles provided to these clients are similar to those described above with some limitations to the types of strategies available depending on the relationship with the client and the third party platform. The accounts are managed on a discretionary basis, however most clients participating in these programs direct us to place transactions for their accounts at their broker dealer/custodians.

### **Clients Introduced to Third Party Managers by BAAM**

On occasion, BAAM refers clients to selected third party managers as part of their asset allocation and investment strategy. Some of the factors considered into referring a third party manager include: BAAM's preference for a particular third party manager, the client's risk tolerance, goals, and objectives, as well as investment experience, and the amount of client assets available for investment. The strategies used by these managers are outside of the scope of our traditional product suite and clients are not required to use the services of our recommended third party managers.

## **Item 5 – Fees and Compensation**

### **Asset Based Fee Schedule for Portfolio Management Services:**

We charge an annual, asset based fee for each strategy. The fees are the same across all strategies:

First \$2.5 million	1.25% (125 basis points)
\$2.5 million to \$5 million	1.00% (100 basis points)
\$5 million up to \$10 million	0.90% ( 90 basis points)
\$10 million and above	0.80% ( 80 basis points)

Minimum Account Size is \$500,000.

Fees are paid quarterly, in advance. For accounts opened during a calendar quarter, the fee due and payable will be calculated on a pro-rated basis for the balance of the quarter.

For additions at or above 10% of the current account value or \$50,000 (whichever is lower), BAAM may charge a pro-rated advisory fee for the balance of the quarter. For withdrawals from the account (or portfolio) of \$50,000 or more, the advisory fee due and payable to BAAM (or due to Client in the form of refund of un-earned and pre-paid fees) will be pro-rated for the number of days within a calendar quarter that the service(s) were not provided.

Fees may be deducted from a client account or billed to the client. In most cases, Clients may choose whichever method they prefer. The specific manner in which fees are charged by Baker Avenue is established in a client's written agreement with Baker Avenue.

**Baker Ave Opportunities Fund LP:**

Class A – 0% management fee, 20% incentive (“performance”) fee

Class B – 1.50% (150 basis points) management fee, 10% incentive (“performance”) fee

Class A and B performance fees are subject to a high water mark provision and a 5% hurdle rate. Where the hurdle rate is not exceeded in a year, the hurdle rate is not compounded in the following year.

Management fees are paid quarterly, in advance. Incentive fees are earned annually on 12/31 each year. Please see Item 6 for additional details on Performance Fees.

**Advisory Fees Charged to Clients Introduced by Third Party Firms**

As indicated above, BAAM provides portfolio management services to Clients introduced to us by third party firms. The advisory fees charged to Clients introduced to us by third party firms are based upon, but are lower than the stated Tiered Fee schedule we use for Clients obtained directly by us (125 basis points (1.25%) on the first \$2.5 million of assets under management, billed quarterly, in advance). The actual fee charged in these various programs are lower, and in some cases, substantially lower than our standard tiered advisory fee.

**Advisory Fees Charged to Clients Introduced to Third Party Managers by BAAM**

The advisory fees charged to Clients introduced to third party managers are based upon the stated Tiered Fee schedule above. The makeup and aggregation of the fee will vary depending on the manager and platform, however the advisory fee paid to BAAM and the manager does not exceed the standard fee schedule.

## **General Information on Advisory Services and Fees**

**Termination and Refunds of Pre-Paid and Un-Earned Advisory Fees:** All contracts with Clients may be terminated at any time by either party (you or us) delivering written notice to the other. All transactions placed at your Custodian up to our receipt of the termination notice will be completed by your broker custodian; no other transactions will be placed by us after receipt of the termination notice.

All un-earned, pre-paid advisory fees will be promptly refunded to the Client by BAAM upon termination. Termination of our advisory relationship is completed as soon as practically possible.

**Additional Expenses:** The portfolio management services provided by BAAM include the investment in ETF and Mutual Fund securities in the portfolios. In addition to transaction costs borne by you, these securities also charge additional fees and expenses to their shareholders. These are in the form of advisory / management fees, distribution fees (in the case of Mutual Funds), administrative and operational expenses, among others. Therefore, in evaluating our portfolio management services, please take into consideration not only BAAM's advisory fee, but also the fees and expenses of the ETF and Mutual Funds that we purchase on your behalf. This information is available from the Mutual Fund Prospectus and other information on the securities, or, you may contact BAAM to discuss these additional expenses or costs.

In addition to the above, investors in the Baker Ave Opportunities Fund LP bear their share of the fund operating expenses, which include the cost of the annual audit and tax return preparation, monthly fund administration costs, and legal fees specific to the fund.

**Services available from other sources:** Clients should also be aware that similar advisory services may be available from other sources at fee levels higher or lower than those charged by BAAM. In addition, Clients do not need to hire BAAM to invest in securities (including ETFs or Mutual Funds); however, you would not receive the value of BAAM's proprietary analysis if you did not hire us to manage your assets.

**Performance Fees:** BAAM does not charge fees on the performance or appreciation of the funds or securities (so-called performance or incentive fees) held in client portfolios in the All Cap Core, Global Tactical Indexing, Small and Mid-Cap Core, Fixed Income, and Blue Chip Income strategies. BAAM does charge, however, investors in the Baker Ave Opportunities Fund LP a performance fee subject to a "hurdle rate."

Please see Item 6 for additional information on Performance Fees.



Services to Family and Friends of BAAM: Certain family members or friends of BAAM principals may receive the same or similar advisory services as Clients for advisory fees and/or performance fees that are zero or negotiated at a rate lower than what is available to our Clients. These lower advisory fees charged to family or friends are not available to Clients.

Non-Discretionary portfolio management services: BAAM provides certain clients with non-discretionary portfolio management services.

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

### Performance or Incentive Fee

Investors in the Baker Ave Opportunities Fund LP select from two fee class options: Series A has a 0% Management (“Asset-Based”) Fee with a 20% Incentive (“Performance”) fee charged on an annual basis, of the net gain in the portfolio (realized and unrealized gains and losses; net of the management fee and operating expenses); Series B has a 1.5% Management (“Asset-Based”) fee with a 10% Incentive (“Performance”) fee charged on an annual basis, of the net gain in the portfolio (realized and unrealized gains and losses; net of the management fee and operating expenses).

In both cases, the performance fee is only charged when the Baker Ave Opportunities Fund investor receives an annual return from the fund for the year that exceeds 5% (the “hurdle rate”). Where the hurdle rate is not exceeded in a year, the hurdle rate is not compounded in the following year.

The annual performance or incentive fees are charged annually, on 12/31 each year. The performance fees are subject to high water marks and are also subject to qualification standards by Clients prior to entering into the agreement:

Only Clients who meet the definitions of an Accredited Investor can invest in the Baker Ave Opportunities Fund LP. The only Clients that can be charged a performance fee are those who meet the definitions of a Qualified Client. A Qualified Client is generally defined as a Natural Person (individual) or Company:

- With at least \$1,000,000 under management with BAAM; or
- A net worth of \$2.0 million (individual or jointly) excluding the value of their primary residence

For Baker Ave Opportunities Fund LP accounts that are closed prior to the end of a calendar year, the performance or incentive fee due to BAAM will be charged (subject to high-water marks and a pro-rated hurdle rate) at the date of termination.

This incentive fee arrangement is subject to Section 205(a)(1) of the Investment Advisors Act of 1940 (The Advisors Act) and in accordance with the available exemptions thereunder, including the exemption set forth in Rule 205-3. Performance based fee arrangements may create an incentive for Baker Avenue to recommend investments which may be riskier or more speculative than those which would be recommended under a different fee arrangement. Such fee arrangements also create an incentive to favor higher fee paying accounts over other accounts in the allocation of investment opportunities. BAAM has procedures designed and implemented to ensure that all clients are treated fairly and equally, and to prevent a conflict from influencing the allocation of investment opportunities among clients with different fee schedules.

## **Item 7 – Types of Clients**

Baker Avenue provides portfolio management services to individuals, high net worth individuals, corporate pension and profit-sharing plans, charitable institutions, foundations, trusts, and other U.S. institutions.

Minimum account size is \$500,000.

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

### All Cap Core

The objective of the ACC strategy is to have competitive returns versus the market benchmarks by investing in market leading stocks and ETF's in low-risk markets, and protecting portfolio principal in high-risk markets by moving up to 100% in cash. The investment manager has sole discretion in determining what constitutes a positive, neutral, or negative market environment. The strategy proactively evaluates the risk-reward opportunities of owning equities or ETF's versus protecting investment capital. When invested during positive markets the ACC strategy will own common stocks or ETF's that the manager feels are demonstrating the appropriate fundamental and technical criteria. In a neutral market environment the strategy may have a balanced exposure between cash and common stocks. The appropriate balance between cash and commons stocks will be at the discretion of the manager. In negative market environment the ACC strategy will liquidate positions as appropriate and move assets to cash, money market instruments, or

other cash equivalents. The strategy may reinvest a portion or all of the assets at any time should the market become oversold and attractive investment opportunities are available.

### Global Tactical Indexing Strategy

The Global Tactical strategy is actively managed with an investment objective to achieve long-term returns that outperform the overall stock market. The Global Tactical strategy invests globally across a broadly diversified portfolio of asset classes including U.S. and international large cap, mid cap, small cap, growth, and value stocks and commodities. The Global Tactical strategy also attempts to preserve capital in severe down markets by raising cash.

### Small and Mid-Cap Core

The Small and Mid Cap Core strategy is designed to capture the upside of the small and mid cap asset classes while reducing market exposure in periods of market volatility. The investment team utilizes fundamental research to select a portfolio of small and mid cap stocks which the manager believes to have favorable risk/reward metrics. During volatile markets, the manager reduces market exposure and uses an increased allocation (up to 100%) to cash in an attempt to reduce risk and protect capital.

Although BAAM is the investment adviser of record for the Small and Mid Cap Core strategy, the actual portfolio management services are provided under a sub-advisory relationship by a 3<sup>rd</sup> party Investment Adviser, Great Gable Partners, LP (SEC File No. 801-63605).

Under our advisory agreement with you, BAAM has the discretionary authority to hire Great Gable Partners to manage your assets under the Small and Mid Cap Core strategy. The advisory fees you pay to BAAM include the advisory fees we pay to Great Gable for their services in the management of your portfolio.

Baker Avenue has the following specific responsibilities:

- Account opening process and determination of suitability;
- Processing of all account paperwork;
- Reconciliation of transactions and positions;
- Calculation of the advisory fees due and payable (as stipulated in the contract; both base fee and performance fee); and
- Monitoring of the portfolio management services provided by Great Gable.

Great Gable has the following responsibilities:

- Market research to identify securities to purchase or sell to meet the strategy;
- Determination of the specific securities to purchase or sell;
- Determination of the amount of your account value to expose to the markets (through long positions in individual stocks, mutual funds, and exchange traded funds or through short exposure via inverse exchange traded funds);

### Fixed Income

The Fixed Income strategy is actively managed with an investment objective to provide current income, liquidity, and preserve capital by investing in a broadly diversified portfolio of fixed income asset classes. The strategy will primarily invest in fixed income ETFs, but may invest in a variety of other fixed income instruments like bond mutual funds and individual bonds. The Fixed Income strategy may invest in a variety of fixed income asset classes such as U.S. government and agency bonds, municipal bonds, corporate bonds, international bonds, treasury inflation protected securities (TIPS), high yield bonds, convertible bonds, and other asset backed or collateralized bond obligations.

### Blue Chip Income

The objective of the Blue Chip Income strategy is to outperform the S&P 500 by investing in high quality, blue chip stocks or ETF's in low-risk markets, and protecting portfolio principal in high-risk markets by moving 100% to cash. The strategy proactively evaluates the risk-reward opportunities of maintaining market exposure versus protecting capital by remaining in cash.

### Baker Ave Opportunities Fund LP

BAAM is the investment adviser to the Baker Ave Opportunities Fund LP, which is a private hedge fund. Qualified investors who are permitted to subscribe for interests in the Baker Ave Opportunities Fund LP ("the Fund") will become an investing member of the Fund. As the investment adviser that is contracted to provide investment management services to the Fund, BAAM is responsible for all major decisions of the Fund, including, without limitation, amending or changing the Fund's investment objectives, investment strategies, and investment policies or limitations.

The objective of the Baker Ave Opportunities Fund is long term capital appreciation and principal protection. The Fund is structured as a long biased long - short hedge fund. The strategy uses a flexible research process incorporating fundamental and technical analysis

for security selection and risk control. Additionally, the strategy incorporates a “macro-aware” top down view to help manage exposure levels and maximize returns. The strategy typically uses common stocks and ETF’s to accomplish its objectives. The Baker Ave Opportunities Fund is a hedge fund and is therefore suitable for Accredited Investors only.

Investing in securities involves risk of loss that clients should be prepared to bear. Risks include price risk (will the price of a security in your portfolio rise or fall?), liquidity risk (how easily can you sell a position at a fair price?), event risk (will something unforeseen happen?), market volatility (is the market in general going through a period of upheaval?) and manager risk (how well did our picks perform?) among others.

Further details are provided in the Offering Materials.

### **Item 9 – Disciplinary Information**

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

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

The principal executive officer, Simon Baker, is also the Managing Member of BAAM GP, LLC the general partner of BAAM.

### **Item 11 – Code of Ethics**

Baker Avenue Asset Management, LP has adopted a Code of Ethics for all supervised persons of the firm describing its high standard of business conduct and fiduciary duty to its clients. The Code of Ethics includes provisions relating to the confidentiality of client information, a prohibition on insider trading, a prohibition of rumor mongering, restrictions on the acceptance of significant gifts, and the reporting of certain gifts and business entertainment items, and personal securities trading procedures, among other things. All supervised persons at Baker Avenue Asset Management, LP must acknowledge the terms of the Code of Ethics annually, or as amended.

#### **Personal and Proprietary Trading:**

At Baker Avenue, like many investment advisers, we follow our own advice. However, we recognize our fiduciary duty to you, our client, and we are obligated to follow the

Regulations, Rules, and interpretations under the Investment Advisers Act of 1940. Our fiduciary obligations to you require us to place your interests first.

When we purchase or sell securities for our own accounts or those of a beneficial nature to us (family and other accounts), we recognize the potential conflict of interest that is inherent in this activity. To meet both our fiduciary and regulatory obligations to you, we have developed and implemented the following controls to address this potential conflict of interest with you. Our controls include:

1. Code of Ethics
  - a. Restrictions and limitations on the personal trading of *all employees*;
  - b. Disclosure of brokerage accounts, security holdings;
  - c. Restrictions and limitations on the receipt of or providing gifts, entertainment and political contributions;
2. Prevention and restrictions on activity when in possession of material, non-public, inside information.

In summary, our Code:

- Allows for employees to trade in the same securities recommended to Clients or the Funds sub-advised by GGP;
- Allows employees to own securities that may be subsequently purchased for the Clients or the Funds sub-advised by GGP;
- Allows employees to purchase securities that would otherwise not be suitable for, or purchased by, Baker Avenue for clients or sub-advised clients advised by GGP;
- Prohibits giving preference to orders for employees over the orders for clients or sub-advised clients;
- Requires, when client or sub-advised client and personal trades are aggregated (blocked together), that the shares purchased over time will be “average priced” so all participants receive the same price;
  - If partial fills are completed, client or sub-advised client orders are completely filled before employee or related accounts.

Additional Requirements Include:

- Act with integrity, competence, diligence, respect in an ethical manner with the public, Clients and affiliates, employees, colleagues, vendors, suppliers and other investment professionals encountered in day-to-day activity;

- Place the integrity of the investment profession, the interests of the clients ahead of our own (or the employee's) interests;
- Prohibits the use of an employee's position at Baker Avenue to enrich the employee (or family) or Baker Avenue and;
- Identify potential conflicts of interest and engage our Chief Compliance Officer;
- Conduct all personal securities trading in compliance with our Code, Policies and Procedures;
- Use reasonable care and prudence, including sound judgment, when conducting investment analysis, making investment recommendations, or engaging in other professional activities;
- Promote the integrity of Baker Avenue and the profession while encouraging (by example) these standards.

**Specific Requirements Related to Personal Securities Trading required by Baker Avenue:**

- Pre-Clear certain personal securities transactions;
- Report personal securities accounts, holdings and members of the employees household (and beneficial ownership accounts) initially (at time of employment) and annually thereafter;
- Certify all reportable securities transactions on a quarterly basis to the Chief Compliance Officer.

You may request a copy of the Baker Avenue Code of Ethics by contacting Jerry Luff or Hannah Kim, Co-Chief Compliance Officers at 415.986.1110 or via email at [jl@bakerave.com](mailto:jl@bakerave.com) and [hk@bakerave.com](mailto:hk@bakerave.com).

## **Item 12 – Brokerage Practices**

Baker Avenue seeks to use a broker-dealer and custodian who will safely hold your assets and execute transactions on terms that are, overall, most advantageous when compared to other providers. We look at many factors in deciding on which brokers to recommend, including transaction costs, execution capability, financial strength, and quality of service, among others.

**Brokerage Discretion:** For many of our Clients, BAAM has the discretionary authority to pick the broker dealer to use. Typically, but not always, BAAM uses one of the broker dealers discussed below. However, BAAM does have the authority for some (but not all) Clients to trade away from their broker or custodian. Often times, BAAM will have to evaluate the additional costs or charges that are charged by the broker / custodian and

evaluate whether the additional charges to trade away (either on a Prime Broker basis, or on a Trade Away basis) is in each Client's best interest. Due to the types of securities we typically purchase or sell for Client accounts, we will often determine that the additional costs involved in a Prime Broker or Trade Away transaction are consistent with our fiduciary obligations of best execution.

Clients may request to place limits on the broker dealer discretionary authority. BAAM reserves the right to not work with you if you determine you would like to restrict or limit our brokerage discretionary authority.

Brokerage Activity: Your assets must be maintained in an account at a "qualified custodian," generally a broker-dealer. BAAM recommends several different broker dealer / custodians to Clients in need of brokerage and custodial services, including:

- Fidelity Investments
- Charles Schwab and Company

Both Schwab and Fidelity offer platform services and technology that helps BAAM with back office management, trade execution, account management, and asset pricing. We believe both companies are financially solid and provide the range of services necessary at reasonable costs.

We primarily recommend Fidelity Brokerage Services LLC ("Fidelity"), a registered broker dealer and investment adviser with FINRA and the SEC. Fidelity clears all securities transactions on a fully disclosed basis through National Financial Services, LLC ("NFS") a registered broker dealer. BAAM has negotiated with Fidelity commissions, custodial, and other charges that are beneficial to our Clients and discounted from Fidelity's standard rates. In addition, Fidelity makes available to BAAM certain institutional mutual funds that would otherwise not be available to BAAM and our Clients due to higher purchase minimums imposed by mutual funds. Fidelity also provides prime brokerage services to any BAAM Client portfolio that is in excess of \$100,000. We may, but are not obligated to, aggregate block trades and select executing brokers other than Fidelity to execute those transactions (with settlement at Fidelity); this may allow us to obtain a negotiated or better price.

Clients whose portfolios are under \$100,000 are not qualified for prime brokerage and as a result, all securities transactions for these Clients are executed solely at Fidelity at the pre-negotiated commission / transaction charges.



We also recommend Charles Schwab and Company, Inc. and Schwab's Institutional program which is similar to the program offered by Fidelity except to qualify for prime broker trading (away from Schwab); the portfolio minimum is \$100,000.

Clients whose portfolios are under \$100,000 are not qualified for prime brokerage and as a result, all security transactions for these Clients are executed solely at Schwab at the pre-negotiated commission / transaction charges.

It is BAAM's policy to trade away from the custodian for block equity trades above a certain share amount and to trade at the custodian when trading for clients individually. Clients using the custodial services are charged a trade-away fee for transactions placed and executed by executing brokers other than the custodian. Smaller accounts with a market value of under the custodian minimums are not eligible to take part in the prime brokerage program due to their size. The trades for these accounts must be traded at their custodian. Prices obtained for trades placed in the prime brokerage program will be different (sometimes higher, sometimes lower) than prices obtained for accounts that are required to trade at the custodian.

Dual contract clients are clients that have a contract with the third party manager and a separate contract with BAAM. The accounts are managed on a discretionary basis, however most clients participating in these programs direct us to place transactions for their accounts at their broker dealer/custodians.

Best Execution: Our criteria for the selection or recommendation of a broker dealer or custodian are consistent across all our decision making when it comes to your transactions. As a fiduciary to you, we are obligated to use broker dealers that we believe provide best execution to BAAM and our Clients. Best Execution, however, is not a defined term, it is a concept. In seeking best execution for Client transactions we evaluate brokers on the following factors and these may vary transaction-by-transaction. The ultimate goal is not necessarily the best price or lowest commission charge. The ultimate goal of Best Execution is to achieve, at that point in time, the best overall execution for our Clients for a particular transaction. We evaluate brokers on the following criteria:

- Actual execution
- Ability to promptly and reliably effect transactions
- Commission charges / spreads
- Market of the security
- Consistency of process (minimal trade errors)
- Willingness to work with us

- Clearing and settlement
- The broker's operational efficiency with which transactions are effected, taking into account the size of the order and the difficulty of the transactions
- The financial strength, integrity, and stability of the broker
- The confidential treatment of BAAM's block trades that the broker is working for us
- Competitiveness of commission rates and charges
- Support services that may be provided (non-soft dollars)

Soft dollars: BAAM engages in soft dollars and will only engage in soft dollar transactions that are in compliance with Section 28e of the Securities and Exchange Act of 1934 (the Exchange Act) as amended, the so-called "safe harbor" for investment managers to receive research and execution services that provide lawful and appropriate assistance to BAAM in the performance of our investment decision making responsibilities. In addition to research services, BAAM may be offered other benefits by broker-dealers that it may engage to execute securities transactions on behalf of our clients. These benefits may take the form of special execution capabilities:

- Clearance and settlement;
- Online pricing;
- Block trading and block positioning capabilities;
- Willingness to execute related or unrelated difficult transactions in the future;
- Order of call;
- Performance measurement data;
- Consultations;
- Economic and market information;
- Periodical subscriptions (e.g., the Financial Times, Investor's Business Daily, etc.);
- Portfolio strategy advice;
- Industry and company comments, technical data, recommendations, general reports;
- Efficiency of execution and error resolution;
- The availability of stocks to borrow for short trades;
- Custody;
- Record keeping and similar services.

Baker Avenue has the option to use "soft dollars" generated by client transactions to pay for the research or brokerage services described above. The products and services available from brokers include both internally generated items (such as research reports prepared by employees of the broker) as well as items acquired by the broker from third parties (such as quotation equipment.)

The use of brokerage commissions to obtain investment research, in addition to BAAM's ability to set the soft dollar credits, is a conflict of interest among BAAM and our clients. This is due to the use of client assets (brokerage paid) to pay for products or services that benefit BAAM and not exclusively our clients.

The foregoing benefits may be available for use by BAAM without engaging in soft dollar transaction or in connection with transactions in which all clients did not participate. The availability of these benefits may influence BAAM to select one broker rather than another to perform services for our clients. Nevertheless, BAAM's decision on which brokers to utilize will be driven by a concerted striving for "best execution." Also, BAAM will attempt to assure that the fees and costs for services provided to us by brokers offering these benefits are reasonable in relation to the fees and costs charged by other equally capable brokers not offering such services.

Baker Avenue clients should understand that Great Gable Partners may receive (directly or indirectly) a benefit from the soft dollar products and services purchased by BAAM in the management of client assets without having to pay for a portion of the soft dollar credits generated. Additionally, not all BAAM client accounts are eligible for soft dollar transactions yet those accounts may also receive (directly or indirectly) a benefit from the soft dollar products and services purchased by BAAM.

Further, BAAM Clients should understand that BAAM may receive directly or indirectly a benefit from the soft dollar products and services purchased by Great Gable in the management of their Client assets.

Directed Brokerage: This applies to Clients who have dual contract relationships and/or accounts that do not meet their custodian's prime brokerage minimum. Certain of our Clients may decide to direct BAAM to place all of their security transactions at a designated broker or dealer ("directed brokerage") as we manage their account.

Clients who direct us to use a particular broker or dealer need to understand that in these situations, BAAM will not be in a position to negotiate commissions, block trades, achieve volume discounts, or achieve best execution. Clients may direct us to use a specific broker or dealer for all of the Client's transactions or only when all other considerations are equal (which may never be achieved due to limitations inherent in directed brokerage instructions). Clients have, therefore, negotiated their own commissions or other transactions costs with the broker.

Exception: Directed Brokerage Clients may inquire from BAAM the commissions, custodial, execution, and other variables negotiated by or monitored by BAAM for Clients who do not

direct BAAM to use a particular broker or dealer in an effort to evaluate their Directed Broker.

Rotational System: To treat all of our clients in a fair and equitable manner, BAAM has developed and uses the following system to determine which Client transactions are implemented first. This process only applies when we determine to purchase or sell a security across all of our investment products or across all Client accounts (as the case may be).

When the investment decision is made, BAAM places orders by Broker Dealer / Custodian:

Places orders for all Client Accounts held at Fidelity Investments, then

We rotate (on a random basis) Client Accounts held at other custodians.

Trade Allocations / Block Trading: BAAM may, but is not obligated to, aggregate trades for more than one Client with transactions in the same securities at the same time. The benefit to block trading is the ability for BAAM to negotiate price and commission and achieve better (best) execution versus placing the transactions separately. This also allows BAAM to allocate limited investment opportunities across a number of clients in a fair and equitable manner. BAAM:

- Will identify the aggregate amount of the security needed for a complete fill
- Will ensure that each participating Client is identified prior to the trade being placed (pre-allocation)
- Will average the prices of multiple transactions executed on a given day to obtain the full amount of the security (the average price of all transactions which is provided to each participating Client)
- For partial fills we will utilize a proportional or random allocation across all participating Client Accounts
- If a pre-execution allocation was not completed, BAAM will allocate as follows:
  - Random or proportional (pro-rated) allocation will be made based on a number of factors such as account suitability, cash available, size of the portfolio, etc.
- BAAM permits the aggregate blocking of Personal Securities Transactions with those of Clients if the block is filled on the same day (average price for all participants);
  - If the order is partially filled or takes multiple days to fill, shares for Employee accounts are allocated on a prorated or random basis along with Clients (thus, employee accounts could be allocated shares and Client

- accounts could not or vice-versa) or else the Employee accounts are excluded from the allocation and Clients are allocated on a prorated or random basis
- Under no circumstance will a partial fill be allocated solely to an Employee account
- Allocation Exceptions: if the executed amount is deemed by the CIO to be de minimis, shares may be allocated to the participating Client Accounts that are the smallest (i.e., complete fills, for example share allocations of 150 or less) or allocated to an account that is out of line with the desired allocation or sector weighting
  - For sale transactions, allocations may be given to accounts in need of cash

### **Item 13 – Review of Accounts**

All accounts are reviewed by the lead advisor on the Client Account. These reviews are conducted on at least an annual basis. The review looks at the conformity of the account holdings with Client investment objectives and guidelines. We do not assign a specific number of accounts to any specific lead advisor; we do allocate the resources to geographic regions across the United States.

In addition, the Portfolio Managers of BAAM continually monitor markets, world and economic events, including securities held by our Clients. This work by the Portfolio Managers provides each Client account or portfolio with an indirect and continual portfolio review.

We do request that Clients contact their lead advisor should any changes occur in their personal financial situation which may impact the portfolio management services we provide to you.

#### **Reports:**

BAAM provides each of our Clients within a household that has an AUM of \$1mm or more a quarterly report showing holdings and performance of your portfolio(s).

This includes information related to realized gains or losses, interest and dividend income, and other specific details. BAAM has engaged a third party service provider (Black Diamond Reporting) to facilitate the generation and delivery of Client Reports. We use data provided by your custodian to generate these reports.

BAAM reports are provided in addition to the monthly reports each client receives directly from their custodian. BAAM is provided with this same information either by mail, electronically through data downloads, or through access to the Custodian's website or other electronic systems.

BAAM ensures each investor in the Baker Ave Opportunities Fund LP receives a monthly capital statement directly from the 3<sup>rd</sup> party fund administrator showing the individual MTD and YTD opening capital, any subscriptions and/or redemptions, net profits & losses, and closing capital, plus a presentation of the return earned on their capital, net of all fees. After the end of the year, BAAM will arrange for all investors to be provided with a copy of the fund's audited financial statements and information necessary to complete their own tax returns (Federal and State K-1s).

**Notice for all clients:** Under SEC rules that took effect March 12, 2010 related to custody of client funds or securities; all SEC registered investment advisers (such as BAAM) are required, if we send periodic reports on your accounts to you, to disclose the following information (this statement will also be included in your quarterly reports you receive from us):

*BAAM encourages each Client to review your custodial reports you receive directly from your (qualified) custodian with those quarterly reports you receive from BAAM. If you have any questions on the information provided by the custodian or BAAM, please contact your Baker Avenue Advisor.*

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

Schwab and Fidelity Programs provided to Independent Registered Investment Advisers (such as BAAM):

BAAM receives economic benefit from these broker / custodians (at no cost to us) through BAAM's participation in the independent adviser service program. Although the benefits received through our participation in these programs provide economic benefit to us, they are not considered research services under Sec28e.

The economic benefits provided to BAAM (and our Clients who custody at Fidelity and Schwab) include:

- Access to dedicated trading desks;
- Client confirmations and bundled statements for all Client Accounts;
- Block trading and prime brokerage services;
- Electronic communication networks for client information access / portfolios and trading;
- Software, tools and information relevant to independent investment advisers;
- Access to educational or due diligence programs;
- Marketing and other support
- Deduction of investment advisory fees due BAAM from Client Accounts (based on a

- spreadsheet request to custodian from BAAM);
- Among others

**Fidelity Investments Wealth Advisor Services Referral Program:**

BAAM participates in the Fidelity Investments Wealth Advisor Services Referral program, through which BAAM receives referrals from Strategic Advisers, Inc. ("SAI"), a registered investment adviser and subsidiary of FMR LLC, the parent company of Fidelity Investments. BAAM is independent and not affiliated with SAI or FMR LLC. SAI does not supervise or control BAAM, and SAI has no responsibility or oversight for BAAM's provision of investment management or other advisory services.

Under this program, SAI acts as a solicitor for BAAM, and BAAM pays referral fees to SAI for each referral received based on BAAM's assets under management attributable to each client referred by SAI or members of each client's household. The WAS Program is designed to help investors find an independent investment advisor, and any referral from SAI to BAAM does not constitute a recommendation or endorsement by SAI of BAAM's particular investment management services or strategies. More specifically, for a period of 7 years from the date that you or members of your household fund an account or accounts with BAAM, BAAM shall pay SAI an amount equal to an annual percentage of 0.20% of any and all assets in such accounts.

To receive referrals from the WAS Program, BAAM must meet certain minimum participation criteria, but BAAM may have been selected for participation in the WAS Program as a result of its other business relationships with SAI and its affiliates, including Fidelity Brokerage Services, LLC ("FBS"). As a result of its participation in the WAS Program, BAAM may have a potential conflict of interest with respect to its decision to use certain affiliates of SAI, including FBS, for execution, custody and clearing for certain client accounts, and BAAM may have a potential incentive to suggest the use of FBS and its affiliates to its advisory clients, whether or not those clients were referred to BAAM as part of the WAS Program.

Under an agreement with SAI, BAAM has agreed not to charge clients more than the standard range of advisory fees disclosed in this Form ADV 2A Brochure to cover solicitation fees paid to SAI as part of the WAS Program. Pursuant to these arrangements, BAAM has agreed not to solicit clients to transfer their brokerage accounts from affiliates of SAI or establish brokerage accounts at other custodians for referred clients other than when BAAM's fiduciary duties would so require; therefore, BAAM may have an incentive to suggest that referred clients and their household members maintain custody of their

accounts with affiliates of SAI. However, participation in the WAS Program does not limit BAAM's duty to select brokers on the basis of best execution.

### **Item 15 – Custody**

Under government regulations, we are deemed to have custody of your assets if you have authorized us to instruct your custodian to deduct your advisory fees directly from your account. However, the qualified custodian maintains actual custody of your assets.

Clients should receive at least quarterly statements from the broker dealer, bank, or other qualified custodian that holds and maintains your investment assets. Baker Avenue urges you to carefully review such statements and compare such official custodial records to the account statements that we may provide to you. Our statements may vary from custodial statements based on accounting procedures, reporting dates, or valuation methodologies of certain securities.

BAAM does have custody of the assets in the Baker Ave Opportunities Fund LP hedge fund. To satisfy the requirements of the SEC Custody Rule for a pooled investment vehicle, BAAM relies on the annual audit provision of this rule and is contractually obligated to obtain an audit of the financial statements of the fund for each fiscal year and deliver them to investors within 120 days of the end of each fiscal year. The audit is performed by an independent public accountant registered with, and subject to regular inspection by, the PCAOB.

### **Item 16 – Investment Discretion**

Baker Avenue provides investment discretionary portfolio management services to Clients. This means that we have the authority provided to us in the agreement with you, to purchase or sell securities for your account, and determine the amount of the securities to purchase or sell without obtaining your consent to the transactions. Of course, we determine the securities based on your needs, risk tolerances, and other factors that govern our portfolio management services. In all cases, however, such discretion is to be exercised in a manner consistent with the stated investment objectives for the particular client account.

In addition, you may impose certain limitations or restrictions on our services, for example, excluding certain stocks or bonds of companies (sin stocks, anti-union stocks, weapons manufactures, etc.) or sectors or industries or concentrations in any sector or industry. However, Baker Avenue reserves the right to reject or not engage you as a Client or terminate an agreement with a Client, if we determine the investment restrictions you



intend to impose prohibit us from delivering our services as defined in our agreement with you. All limitations or restrictions must be provided to Baker Avenue, in writing, and will not be accepted or implemented until signed (accepted) by Baker Avenue.

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

As stipulated in our advisory agreements with Clients, we do not vote and have no responsibility to vote proxies or other matters related to the issuers of securities in your portfolios. In account set-up paperwork, the custodian of your account will be instructed to deliver all proxy related materials directly to your address of record.

Exception: If Client is subject to ERISA, and the plan has not specifically withheld the proxy voting responsibility to a named fiduciary and is delegating that activity to BAAM as a named fiduciary, we will vote proxies for ERISA Account / Plan subject to specific written instructions, copies of the plan and trust documents governing our advisory services and the proxy voting responsibility. In addition, BAAM will vote proxies solely as indicated in the proxy voting guidelines provided by the ERISA Client to us (which must be in writing, with updates forward to us for our use as they may be updated from time-to-time).

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

Registered investment advisers are required in this Item to provide you with certain financial information or disclosures about Baker Avenue's financial condition. Baker Avenue has no financial commitment that impairs its ability to meet contractual and fiduciary commitments to clients, and has not been the subject of a bankruptcy proceeding.