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## **Sterling Asset Management, LLC**

**120 South Warner Road, Suite 101**

**King of Prussia, PA 19406**

**(610) 254-7630**

**[info@sterlingam.com](mailto:info@sterlingam.com)**

**[www.sterlingam.com](http://www.sterlingam.com)**

**Form ADV Part 2A Firm Brochure**

**October 31, 2011**

**This brochure provides information about the qualifications and business practices of Sterling Asset Management, LLC. If you have any questions about the contents of this brochure, please contact us at (610) 254-7630 or [info@sterlingam.com](mailto:info@sterlingam.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 authority.**

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

Sterling Asset Management, LLC is a registered investment adviser. Registration does not imply a particular level of skill or training.

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## **MATERIAL CHANGE**

This Form ADV Part 2A Firm Brochure has been rewritten in response to new disclosure requirements in Form ADV, which the Securities and Exchange Commission adopted in 2010.

Only material changes since the last annual update of the Brochure, on May 12, 2011, are discussed here.

At this filing, October 31, 2011, the Brochure has been revised to reflect that Sterling Asset Management, LLC no longer offers the Global Sales-Weighted Index™ Program and that the ownership and management of Sterling Asset Management, LLC has changed.

If you require another copy of this document, please contact us and we will happily send it to you. Also, a copy of this document, can be obtained online at the SEC website, [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).

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## **Advisory Business**

Sterling Asset Management, LLC is an investment adviser registered with the Securities and Exchange Commission (“SEC”) and has been in business since 2007. Our principal owner is David Killian. As of December 31, 2010, Sterling Asset Management manages \$ 819,155,000 in client assets on a discretionary basis and \$ 8,820,000 in client assets on a non-discretionary basis.

Our services at Sterling Asset Management are individually tailored to each of our clients’ needs and involve consulting with you to identify your investment objectives and develop investment policies designed to achieve these objectives. We monitor investment results in each client’s account and makes changes as needed to respond appropriately to developments affecting individual securities, market conditions and the economy. We will provide you with reports and other forms of direct communication. Additionally, we will hold meetings with you, as a client, periodically to discuss results and evaluate the continuing appropriateness of your investment objectives and policies. As the client, you may impose restrictions on investing in certain securities or types of securities.

### **Investment Advisory Services Program**

The Investment Advisory Services Program consists of investment advisory services in which we have discretionary authority to purchase and sell securities within your portfolio using investment styles in accordance with your particular investment objectives.

**Fixed Income Investment Philosophy** – Our fixed income advisory services adhere to a conservative investment philosophy that focuses on building a portfolio of high quality securities well diversified across all major fixed income sectors. Our emphasis is on generating a level of portfolio yield in excess of the benchmark, as historical data have proven that income dominates fixed income returns over time. Through the use of a well-defined duration strategy and controlled sector weightings, portfolio volatility is reduced.

**Investment Decision-Making Process** - Given our emphasis on building portfolios with a yield advantage relative to the index, our decision-making process begins with an evaluation of the higher yielding investment grade fixed income sectors. Security selection and sector allocation are the primary sources of value added within our fixed income strategies, representing 80% of our decision-making process. The remaining 20% is split evenly between yield curve positioning and duration management.

**Portfolio Construction** – We construct portfolios within a well-defined risk control process, which limits security and sector exposure, thereby limiting overall portfolio volatility and providing the appropriate level of diversification. These limits include minimum exposure to the U.S. Treasury and agency sectors as well as, maximum allocation to investment grade corporate bonds. Individual security exposure, with the exception of government agency bonds, is limited to 5% of the portfolio value.

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**Equity Portfolios** – We also offer the management of equity portfolios that are customized to your needs. We will seek to construct an equity portfolio that protects your capital while participating in market gains.

**Sub-advisors** – Depending upon your investment objectives, we may select sub-advisors whom we determine can best achieve your investment objectives. There may be instances when we believe it is beneficial to have more than one sub-advisor for an account. We will consider the following factors in making this decision: each sub-advisor's management style, client account size, risk tolerance and reporting requirements. We review each prospective and current sub-advisor's performance history, asset allocation history, Form ADV and marketing literature. We, at Sterling Asset Management, also may examine each sub-advisor's operations, financial condition and key personnel, including the sub-advisor's portfolio managers or portfolio management teams. In such cases, we will compensate them from the fees we receive from you, as our client, for the management of your account.

We will continually monitor all sub-advisors with whom we do business. From time to time, we may use independent consultants to provide statistical research and performance-based analysis of current and potential sub-advisors. In addition to our own staff, we may also use, from time to time, outside compliance and operations consultants to assist with the monitoring of sub-advisors.

The sub-advisors that we may select for you may offer advice on various types of investments and use different security analysis methods, sources of information and investment strategies. As a client, you should refer to the disclosure documents of each sub-advisor for details on the advisory services offered by each sub-advisor. When appropriate, we may direct the movement of some or all of your account from any existing sub-advisor(s) to any other existing or new sub-advisor(s).

## **Fees and Compensation**

We, at Sterling Asset Management, directly bill our clients quarterly in arrears for our advisory services. Fees are negotiable to the extent provided in the fee schedules. We reserve the right to negotiate and/or change our fee schedule for new or existing clients, while continuing to charge some or all of our existing clients on the basis of fees and agreements in force prior to the change.

Advisory services are provided pursuant to an investment advisory agreement between Sterling Asset Management and each client. In the event of the termination by either party of the investment advisory agreement governing an advisory relationship, we will prorate and calculate the fees to the date of termination.

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We may be hired by other investment advisers to provide sub-advisory services to an account or a portion of an account for fixed income or equity investment styles. In this case, the fees that we may charge an investment adviser for the management of an account may be different from the fees described below for our clients.

Our clients are responsible for other costs of investment, including custodian fees and brokerage and other transaction costs. For more information on brokerage costs, see “Brokerage Practices,” below.

### **Investment Advisory Services Program Fees**

We base our advisory fees for the Investment Advisory Services Program on the applicable percentage of assets under management and we charge quarterly at the annual rates set forth below. For purposes of these fees, a client’s assets under management for a given quarter are equal to the average of the portfolio’s fair market value at the end of each calendar month in the quarter.

#### **Equity:**

.60% on the first \$25,000,000;

.50% over \$25,000,000, up to \$75,000,000, and

Fees are negotiable on assets over \$75,000,000.

#### **Enhanced Cash / Enhanced Cash—Government Only:**

.25% on the first \$25,000,000;

.20% over \$25,000,000, up to \$100,000,000;

Fees are negotiable on assets over \$100,000,000.

#### **Intermediate-Term Fixed Income:**

.30% on the first \$25,000,000;

.25% over \$25,000,000, up to \$100,000,000;

Fees are negotiable on assets over \$100,000,000.

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**Core Fixed Income:**

.35% on the first \$25,000,000;

.30% over \$25,000,000, up to \$100,000,000;

Fees are negotiable on assets over \$100,000,000.

**Types of Clients**

We provide discretionary investment supervisory and management services for:

- Retirement plans
- Trusts
- Estates
- Charitable Organizations
- Corporations
- High-net-worth Individuals
- Governments, (Municipal, State and Local)
- Agencies and Authorities
- and Other Governmental Entities.

The minimum investment for the Investment Advisory Services Program is \$5 million.

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

Our methods of analysis and investment strategies for the Investment Advisory Services Program are discussed above. See “Advisory Business—Investment Advisory Services Program”

**Risk of Loss** – Investing in fixed income securities through the Investment Advisory Services Program does pose interest rate risk. In rising interest rate environments the principal value of fixed income securities will decline. In addition to interest rate risk, investing in corporate bonds poses credit risk as well. Increased credit risk will generally place downward pressure on the price of a given corporate bond, thereby increasing the likelihood of principal loss.

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Equity investments through the Investment Advisory Services Program are investments in equity securities and have all the risks of equity investments, including the risk of loss if stock prices decline.

### **Disciplinary Information**

Not applicable.

### **Other Financial Industry Activities and Affiliations**

Not applicable.

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

Employees of Sterling Asset Management may buy or sell securities that we recommend to clients. These purchases and sales are governed by our Code of Ethics and Standards of Professional Conduct, (the "Code"), as described in more detail below.

Sterling Asset Management adopted the Code pursuant to Rule 204A-1 under the Investment Advisers Act of 1940 in order to prevent persons who are actively engaged in investment advisory services or portfolio selection for clients from participating in fraudulent, deceptive or manipulative acts, practices or courses of conduct in connection with managing client accounts. The Code establishes certain standards of business conduct to which our officers, members and employees are expected to adhere. In particular, the Code is designed to uphold the following principles: (1) that our duty at all times is to place the interests of our clients first; (2) that all personal securities transactions conducted by any of our officers, members or employees shall be conducted consistently with the provisions of the Code and in such a manner as to avoid any actual or potential conflict of interest or any abuse of that individual's position of trust and responsibility; and (3) that our officers, members and employees shall not take inappropriate



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advantage of their positions with us. The Code outlines prohibited transactions and conduct by certain officers, members and employees of Sterling Asset Management. The Code mandates that particular employees of Sterling Asset Management submit holdings and transactions reports and certifications of compliance with the Code to our Chief Compliance Officer ("CCO") on an initial, quarterly and annual basis. The CCO is responsible for imposing appropriate sanctions for violations of the Code. The CCO will also prepare a written report, no less frequently than annually if there have been violations, describing any violations of the Code and any sanctions imposed. The Code also contains an Insider Trading Policy that is designed to prevent the misuse of material, nonpublic information by us and our officers, members and employees. The Insider Trading Policy expressly forbids any officer, member or employee from either trading on material non-public information, or communicating material non-public information to others in violation of federal law. The Insider Trading Policy contains detailed procedures to implement and maintain our prohibitions on insider trading and reporting and certification requirements to ensure that the Insider Trading Policy is properly administered and followed. We will provide a copy of the Code to you upon request.

### **Brokerage Practices**

Generally, we have full authority and discretion to engage any broker-dealer to execute investment decisions and transactions for you that, in our opinion, will provide you best execution on a per-trade basis. In selecting broker-dealers to effect client transactions, we consider a number of factors, including price of securities, commissions, ability to provide prompt execution of orders, abilities and financial wherewithal of the broker-dealer, and in connection with particularly difficult transactions, the broker-dealer's expertise with respect to such transactions.

Typically, to achieve best execution, we will "bunch" or block-trade client orders. If "bunch" or block trading is not available, we will disclose this fact to you and you will not pay higher commissions as a result. While orders are blocked for price, you pay their individually negotiated commission rate. As a result, you will not achieve savings in commissions from block trades.

You may direct us to use a particular broker-dealer to execute transactions for your account. In this circumstance, your direction will be in written form authorizing us to execute all or certain transactions with the particular broker-dealer and you will provide us with a written acknowledgment that you understand that: (A) in directing us to use a particular broker-dealer, we may not be in a position where we can freely negotiate commission rates or spreads, or select broker-dealers on the basis of best price and execution; (B) such directed brokerage transactions may not be commingled or "batched" for purposes of execution with orders for the same securities for other accounts managed by us; and (C) accordingly, your direction of a particular broker-dealer to execute transactions for the account may result in higher commissions, greater

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spreads or less favorable net prices than might be the case if we were empowered to freely negotiate commission rates or spreads, or to select broker-dealers on the basis of best execution.

When appropriate under our discretionary authority and consistent with our duty to obtain best execution, we may direct brokerage transactions for client accounts to broker-dealers who provide us with research and brokerage services. The brokerage commissions used to acquire these services are known as “soft dollars.” The Section 28(e) of the Securities Exchange Act of 1934 and related SEC interpretive materials provide a “safe harbor” which allows us to pay for research and brokerage services with soft dollars generated by your account transactions. Section 28(e) permits us, under certain circumstances; to cause your accounts to pay broker-dealers a commission for effecting portfolio transactions in excess of the commission another broker-dealer would have charged to effect such transactions. Broker-dealers typically provide a bundle of services, including research and execution. The services provided can be either proprietary (created and provided by the broker-dealer, including tangible research products as well as access to analysts and traders) or third-party (created by third-party but provided by broker-dealer). We may use soft dollars to acquire either type. It is not generally possible to place a dollar value on the special executions or on the research services we receive from broker-dealers effecting transactions in portfolio securities. Accordingly, we may pay broker-dealers commissions for effecting your portfolio transactions in excess of amounts other broker-dealers would have charged for effecting similar transactions if we determine in good faith that such amounts are reasonable in relation to the value of the brokerage and/or research services provided by those broker-dealers, viewed either in terms of a particular transaction or our overall duty to its discretionary accounts.

In determining whether a service qualifies as research or brokerage, we must evaluate whether the service or product provides lawful and appropriate assistance to it in carrying out its investment decision-making responsibilities. Brokerage and research services that may be provided under Section 28(e) include furnishing advice as to the value of securities and as to the advisability of investing in, purchasing or selling securities, and effecting securities transactions and performing functions incidental thereto (such as clearance, settlement, and custody). We will not enter into any agreement or understanding with any broker-dealer that would obligate us to direct a specific amount of brokerage transactions or commissions in return for such services. However, certain broker-dealers may state in advance the amount of brokerage commissions they require for certain services and the applicable cash equivalent.

When we use client brokerage commissions (or markups or markdowns) to obtain research or other products or services, we receive a benefit because we do not have to produce or pay for the research, products or services. We may have an incentive to select or recommend a broker-dealer based on our interest in receiving the research or other products or services, rather than on your account receiving most favorable execution. We use soft dollar benefits to service all of our clients’ accounts, not just those that paid for the benefits, and we do not seek to allocate soft dollar benefits to client accounts proportionately to the soft dollar credits the accounts generate.

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The following are services acquired with soft dollar credits over the past fiscal year:

1. Bloomberg – Bloomberg is used to monitor security pricing and receive real time market quotes and information from broker dealer contacts.
2. CMS Bondedge – Bondedge is the primary portfolio management tool used for monitoring client fixed income portfolios.
3. Creditsights – Creditsights provides credit research on investment grade fixed income securities held within our client portfolios.
4. Eze Castle – The Eze Castle trading platform is used to execute all equity trading.

All soft dollar trading is executed with the Bank of New York Convergenx trading unit, and all such trades are done with the Convergenx group bidding and offering in competition with a non-soft dollar broker. Trades are executed with soft dollar credits when the levels offered are superior to non-soft dollar prices received from competing brokers.

### **Review of Accounts**

We, at Sterling Asset Management, will meet with you on a regular basis to review your circumstances and determine, if any, significant changes have occurred that require changes to your investment objectives and policies and need to be communicated to any sub-advisor. In addition, we monitor and review your account to ensure adherence to your investment objectives.

We review each account regularly and not less than once a month. Additionally, we will do so whenever information coming to our attention would make a review advisable. Such information would include: change in your situation; changes in the condition, prospects or market price of a portfolio holding; or changes in the financial or securities markets generally. Those that conduct this review are all of the members of our Investment Policy Committee, which normally includes our Chief Investment Officer (“CIO”) and one to three other portfolio managers. The investment management team acts as a group, developing investment policies that are intended to meet client objectives, including the selection of portfolio securities to be added to or eliminated from client accounts. The team members review all accounts at least once per month. Our CIO retains final control over all investment decisions.

We will furnish you with written reports, quarterly or more frequently, as mutually agreed, showing positions and values at the end of the reporting period.

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## **Client Referrals and Other Compensation**

Not applicable.

## **Custody**

Not applicable.

## **Investment Discretion**

For accounts managed under the Investment Advisory Services Program, we have discretionary authority to determine and execute, without obtaining consent from our client, the type and amount of securities we will buy or sell within each client account. Our discretionary authority is provided and detailed in the investment management agreement entered into between Sterling Asset Management and you, as our client.

## **Voting Client Securities**

It is not our policy to vote proxies on behalf of our clients. In the event that you, as our client request that we do so, we, as a matter of policy and as a fiduciary to you, have the responsibility for voting proxies for your portfolio securities in your best economic interest. We have a proxy voting relationship with RiskMetrics/ISS. We, at Sterling Asset Management, have adopted the RiskMetrics/ISS Proxy Voting Policy and consistently execute all available shares according to the RiskMetrics/ISS policy. It is our responsibility to establish the relationship with Risk/Metrics/ISS for you at the inception of the relationship. Should any proxy information be given to Sterling Asset Management on your behalf, our employees have been directed to forward that proxy material to the Chief Investment Officer of Sterling Asset Management, who will immediately forward a copy of the materials to RiskMetrics/ISS. We receive periodic vote-history reports from RiskMetrics/ISS (monthly, quarterly, and annually) that detail our accounts' proxy records. We can provide you with periodic proxy reports upon request. Our Chief Investment Officer, in conjunction with our Chief Compliance Officer, have the responsibility for the implementation and monitoring of our proxy voting policies, practices, disclosures and record keeping, as adopted in the RiskMetrics/ISS Proxy Voting Policy. We will provide you with a copy of the RiskMetrics/ISS Proxy Voting Policy upon request.

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## **Financial Information**

Not applicable.

## **Requirements for State-Registered Advisers**

Not applicable.

## **Privacy Policy**

As a registered investment adviser, Sterling Asset Management and all supervised persons, must comply with SEC Regulation S-P, which requires investment advisers to adopt policies and procedures to protect the "nonpublic personal information" of natural person clients. "Nonpublic information," under Regulation S-P, includes personally identifiable financial information and any list, description, or grouping that is derived from personally identifiable financial information. Personally identifiable financial information is defined to include information supplied by individual clients, information resulting from transactions, any information obtained in providing products or services. Pursuant to Regulation S-P Sterling Asset Management has adopted policies and procedures to safeguard the information of natural person clients.

We do not disclose any nonpublic information about you to outsiders, except for the custodian of your account, the sub-administrator of your account, or as required by law. We restrict access to your personal and account information to those of our employees who need to know that information to provide products or services to you. We maintain physical, electronic, and procedural safeguards to guard your nonpublic personal information. The only nonpublic information about you that we maintain is collected from information we receive from you on applications or other forms and information about your transactions with us or others. If you ever close your account(s) or become an inactive client, we will continue to adhere to the privacy practice as described in this notice.

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## **Other Information**

### **Anti-Money Laundering**

As a securities firm, we are subject to a number of statutory and regulatory requirements that were designed to assist the Federal Government in combating money laundering, including the Bank Secrecy Act ("BSA"), the Money Laundering Control Act of 1986 and the USA Patriot Act of 2001 ("UPA"). We have established an Anti-Money Laundering Policy in which we have affirmed that it is our policy to implement an effective anti-money laundering program. In order to combat money laundering, the Anti-Money Laundering Procedures ("AML Compliance Procedures") have been adopted and made binding on all of our employees.

### **Political Contributions**

We have adopted compliance policies and procedures to mitigate risks of political contributions made by our employees. However, Sterling Asset Management is unable to exercise any control over the political activities of individuals not employed by our firm. Accordingly, these compliance procedures do not apply to non-employees.

### **Business Continuity**

As part of our fiduciary duty to our clients and as a matter of best business practices, Sterling Asset Management has adopted policies and procedures for disaster recovery and for continuing our business in the event of an emergency or a disaster. These policies are designed to allow us to resume providing service to our clients in as short a period of time as possible. These policies are, to the extent practicable, designed to address those specific types of disasters that we might reasonably face given our business and location.

**Item 1- Cover Page**

David Killian  
Sterling Asset Management, LLC  
120 South Warner Road, Suite 101  
King of Prussia, PA 19406  
610-254-7630  
October 31, 2011

**This Brochure Supplement, (Form ADV P2B) provides information about David Killian that supplements the Sterling Asset Management, LLC Brochure, (Form ADV P2A). You should have received a copy of that Brochure.**

**Please contact us at 610-254-7630 if you did not receive Sterling Asset Management's Brochure or if you have any questions about the contents of this supplement.**

**Additional information about David Killian is available on the SEC's website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).**

## **Item 2- Educational Background and Business Experience**

David M. Killian - Born 1970

Education: Villanova University, Villanova, Pennsylvania  
BS Finance 1996

Business:

Sterling Asset Management, LLC  
Principal, CIO & CCO, 10/2011 - Present

Sterling Asset Management, LLC (previously named Valley Forge Advisors, LLC)  
Principal, Portfolio Manager, 7/08 – 10/2011

StoneRidge Investment Partners  
Partner, Director of Fixed Income, 9/99 - 7/08

Wachovia Bank - Evergreen Investments  
Portfolio Manager, 1995 - 9/99

## **Item 3- 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 each supervised person providing investment advice. No information is applicable to this Item.

## **Item 4- Other Business Activities**

No information is applicable to this Item.

## **Item 5- Additional Compensation**

No information is applicable to this Item.



**Item 6 - Supervision**

David Killian is supervised by two outside compliance consultants and regular accounting audits by an outside company.

**Item 7- Requirements for State-Registered Advisers**

No information is applicable to this Item.