



HILLCREST ASSET MANAGEMENT, LLC

Hillcrest Asset Management, LLC.

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This brochure provides information about the qualification and business practices of Hillcrest Asset Management, LLC. If you have any questions about the contents of this brochure, please contact us at 972-490-4400, or by email at dtrask@hillcrestasset.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 Hillcrest Asset Management, LLC is available on the SEC's website at www.adviserinfo.sec.gov.

MATERIAL CHANGES

Annual Update

Hillcrest Asset Management, LLC is providing this information as part of our annual updating amendment which contains material changes from our last annual update. This section discusses only material changes since the last annual update which most recently occurred on March 31, 2010.

Material Changes since the Last Update

The Securities and Exchange Commission adopted amendments to Part 2 of Form ADV effective October 2010. The newly revised Part 2 consists of Part 2A (the "Brochure") and Part 2B (the "Brochure Supplement"). Each update of the Brochure must now include a summary of all material changes since the last annual update.

This Brochure, dated October 20, 2011, is updated to include Hillcrest Asset Management management of an investment company in the form of a mutual fund.

Full Brochure Availability

The Firm Brochure for Hillcrest Asset Management, LLC is available by contacting Deborah Trask, Chief Operating Officer, at:

Hillcrest Asset Management, LLC.

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ADVISORY BUSINESS

Firm Description

Hillcrest Asset Management, LLC (“Hillcrest”) has been in business since October 1, 2007 and is engaged in the business of providing investment supervisory services.

Principal Owners

The majority of the firm (58%) is employee-owned through Hillcrest Holdings, LLC. Brian Bruce, CEO, owns 40% of Hillcrest Asset Management through Hillcrest Holdings, LLC. The remaining 42% of Hillcrest Asset Management is owned by Grail Partners through the Chalice Fund.

Types of Advisory Services

We offer advice on exchange-traded, over-the-counter and foreign-issued equity securities through our three products: Small Cap Core, Small Cap Value and Large Cap Core, in accordance with those methods as described in the *Methods of Analysis, Investment Strategies and Risks of Loss* section.

Tailored Relationships

Hillcrest has discretionary authority to buy and sell securities in the quantities that it deems fit without first obtaining consent of the client. However, limitations or restrictions with respect to the exercise of this investment discretion can be established by the client in writing at the commencement of the advisory relationship or thereafter. Clients do have the right to impose restrictions on type or class of securities that are transacted for the account however, they will be informed that this could have a marked effect on Hillcrest’s ability to trade their account in the same manner as other accounts of the same strategy and in turn this could affect the overall performance of the account.

Wrap Fee Programs

Hillcrest does not currently participate in any wrap fee programs.

Client Assets

All client assets currently managed by Hillcrest are discretionary and as of September 30, 2011 they totaled \$17,904,796.

FEES AND COMPENSATION

Description

Investment Advisory Services fees are charged as a percentage of account assets. Fees are quoted on an annual basis. The fee charged typically follows the schedules outlined below.

The standard advisory fees for the Small Cap Core product are as follows:

1.00% annually on the first	\$10 Million of Portfolio Value
0.95% annually on the next	\$40 Million of Portfolio Value
0.90% annually on amounts over	\$50 Million of Portfolio Value

Minimum Annual Fee of \$50,000

The standard advisory fees for the Small Cap Value product are as follows:

1.00% annually on the first	\$10 Million of Portfolio Value
0.95% annually on the next	\$40 Million of Portfolio Value
0.90% annually on amounts over	\$50 Million of Portfolio Value

Minimum Annual Fee of \$50,000

The standard advisory fees for the Large Cap Core product are as follows:

0.35% annually on the first	\$50 Million of Portfolio Value
0.20% annually on the next	\$50 Million of Portfolio Value
0.18% annually on amounts over	\$100 Million of Portfolio Value

Minimum Annual Fee of \$50,000

All assets in any form are considered in the computation of fees. Money invested in cash balances, money market assets, client-directed assets or notes will be included. If trades are unsettled and pending, the trade date balance will be used.

In computing the market value of any investment of a client's account, each security listed on national securities exchanges shall be valued at the last quoted sales price on the valuation date of the principal exchange on which such security is traded. Any other security or asset shall be valued in a manner determined in good faith by Hillcrest to reflect its fair market value.

Our fees are generally non-negotiable; however, fees charged to any given client may be higher or lower than the stated fees or the fees charged to other clients with accounts of comparable size and investment objectives, based on the client circumstances or investment guidelines.

Fee Billing

Account fees are computed and billed quarterly, in advance. The initial fee shall be based on the Account's market value at the inception of the Advisor's management and prorated for the number of days the Account was managed during the initial quarter. Subsequent quarterly fees shall be based on the Account's market value as of the close of business on the last business day of the quarter preceding the quarter for which the fee is due.

Either Hillcrest or the client may terminate an advisory contract at any time by giving the other party 30 days written notice. Advisory fees paid in advance will be prorated to the date of termination and any unearned portion will be refunded to the client.

Clients may choose to have fees deducted from their account or to be billed. The deduction of fees or billing of clients is done on a quarterly basis on the 10th of the first month following quarter end.

Other Fees

Client shall be responsible for all commissions and other transaction charges, and any charge relating to the custody of securities for their account. The fee charged by Hillcrest covers only the investment management services provided by the Hillcrest and does not include brokerage commissions, mark-ups and mark-downs, dealer spreads or other costs associated with the purchase and sale of securities, custodian fees, interest, taxes, or other Account expenses.

PERFORMANCE-BASED FEES & SIDE-BY-SIDE MANAGEMENT

Sharing of Capital Gains or Capital Appreciation

Neither Hillcrest nor any of its employees accepts performance-based fees, that is, fees based on a share of capital gains on or capital appreciation of the assets of a client.

TYPES OF CLIENTS

Description

Current clients consist of individuals, mutual funds and retirement and savings plans.

Account Minimums

Hillcrest does not have a minimum account size requirement; however, as noted in the *Fee and Compensation* section above, we have a minimum annual fee of \$50,000.

METHODS OF ANALYSIS, INVESTMENT STRATEGIES AND RISK OF LOSS

Methods of Analysis

We believe a well-defined investment process starts with an overall philosophy of how stocks will outperform the market. Having an overall philosophy helps a manager make sure they are not exploiting random returns as skill.

The Hillcrest philosophy is based on the understanding that a portfolio of securities with a combination of attractive valuations and good earnings growth will consistently outperform its benchmark. The strategy's primary emphasis is the use of quantitative techniques to select individual securities in what would be considered a bottom-up approach. Our approach is inherently non-linear relying less on statistical estimations and more on investment insight. A risk control discipline limits the over- or under-exposure of the portfolio to industry/sector concentration. Security selection is the key component of our alpha generation. We utilize academic research, behavioral market theory, quantitative tools and fundamental research in our process. We invest in securities that have superior valuations relative to the market and their peers, earnings growth greater than the market and their peers and strong financials. The competitive strength of this strategy is that it avoids introducing to the process any judgmental biases and behavioral weaknesses that often influence investment decisions.

The Efficient Market Hypothesis states that utilizing publicly available company information will lead to a fair value. It is clear that company information alone is not the only thing that affects the price of a stock. The fact that people buy and sell stocks affects the price because people have emotions and opinions about companies that are not always reflected in the data available. Due to these emotions, prices will deviate around fair value. Hillcrest utilizes behavioral finance to take advantage of this mispricing.

What sets Hillcrest's process apart is that our research shows which factors are important and when they are important. It is important to understand, for example, that long-term price momentum cannot be positive if you plan to buy at the bottom of the valuation cycle. Positive long-term price momentum back tests very well and many managers give it a fixed weight in their model due to this fact. We understand that long-term price momentum is a good factor to use when determining to hold a stock but it can keep you from buying when valuations are most attractive. We use our experience as portfolio managers and our investment philosophy to guide our models and will use long-term price momentum only when it is accretive to the process

Hillcrest seeks attractively-priced securities with strong financials. We buy those stocks when positive information changes perception of the company. We hold those stocks as they move from under-reaction to over-reaction. We sell them when the valuation is expensive and investors are losing enthusiasm. The strategy's emphasis is securities selection. We do not engage in asset allocation, sector rotation or any top down techniques. Historical attribution shows that over 95% of returns come from stock selection.

The portfolio decision making process is quantitative and driven by (1) a proprietary model which ranks securities based on fundamental measures of value relative to growth rates and, (2) strong sentiment indicators such as earnings revisions/surprises, short interest and percentage change in short interest, (3) a risk control process that controls for residual benchmark risk while maximizing the expected return of the portfolio. Additionally, we employ a very robust fundamental (quality) component that seeks to uncover data errors and misinformation. This leads to a high degree of consistency in the practical application of our investment philosophy. In order to maintain our position at the cutting edge, refinements to the model are made as suggested by advances in our research. These refinements are generally incremental in nature and do not represent a departure from our basic philosophy.

A universe of approximately 10,000 equity securities is screened for market capitalization between \$100 million and \$2.5 billion and for liquidity which yields an investable universe of approximately 1,800 securities. These securities are ranked by our proprietary quantitative model driven by a security's fundamental measures of value, growth prospects and sentiment indicators. The top 20% of stocks by expected return rank (approximately 360 securities) are then further analyzed using fundamental techniques and the final stocks are chosen. The portfolio is then constrained by specific industry/sector and company limitations to achieve diversification. The process produces a buy list with portfolio weights ranging from 0.5% to 1%. As market action changes the weight composition of securities in the portfolio, stock positions that have appreciated to exceed 1.5% of the portfolio will be scaled back.

Investment Strategies

The significant strategies employed by Hillcrest are small cap core, small cap value and large cap core. The method of analysis and the risks are the same for each of them. The difference is the universe of stocks and the benchmark. For small cap core the universe and benchmark is the Russell 2000 Index. For small cap value the universe and benchmark is the Russell 2000 Value Index. For large cap core the universe and benchmark is the S&P 500 Index.

Risk of Loss

Investing in securities involves risk of loss that clients should be prepared to bear.

Hillcrest invests in U.S. equity securities. We do not invest in options or futures. There is market risk or the risk that stock prices and/or the implied volatility will change. Hillcrest has a risk control process that controls for residual benchmark risk while maximizing the expected return of the portfolio. Stocks generally fluctuate in value more than bonds and may decline significantly over short time periods. There is the chance that stock prices over-all will decline because stock markets tend to move in cycles, with periods of rising and falling prices. Individual investments may decline due to general weakness in the markets, or due to the specific factors affecting company returns or a particular industry.

Investments in small-sized companies pose greater risks than those typically associated with larger, more established companies such as increased volatility of earnings and prospects, higher failure rates, and limited markets, product lines or financial resources.

DISCIPLINARY INFORMATION

Advisers are required to disclose all material facts regarding any legal or disciplinary events that would be material to your evaluation of Hillcrest or the integrity of our management. Hillcrest and our management personnel are not currently, nor have they ever been, a party to any such legal or disciplinary action.

OTHER FINANCIAL INDUSTRY ACTIVITIES AND AFFILIATIONS

Neither hillcrest nor any of its employees has any relationships or industry related activities that are material to their advisory business or clients.

**CODE OF ETHICS, PARTICIPATION OR INTEREST IN CLIENT TRANSACTIONS AND
PERSONAL TRADING****Code of Ethics**

All officers and employees are required to sign an annual statement acknowledging receipt, compliance with and understanding of Hillcrest's Code of Ethics. A detailed copy of Hillcrest's Code of Ethics is available to clients or prospective clients upon request.

Invest in Same Securities Recommended to Clients and Personal Trading Policies

All Hillcrest employees are restricted from engaging in any practices that would operate as a fraud or deceit upon Hillcrest or any of its clients. Hillcrest permits its employees to invest in securities that may also form a part of the client's portfolios. Because Hillcrest permits its employees to deal in securities that clients may also deal in, every employee is required to obtain pre-clearance on securities transactions including initial public offerings and limited offerings.

BROKERAGE PRACTICES

Selecting Brokerage Firms

Hillcrest seeks to obtain "best execution" for our clients in such a manner that the client's total cost for or income, as well as the quality of the execution, from each transaction is the most favorable under the circumstances. The determining factor is not the lowest possible commission cost but whether the transaction represents the best qualitative execution. In seeking best execution and in selecting a broker-dealer through which to purchase and sell securities, Hillcrest will consider a range of factors, including price and commissions, execution ability, clearance procedures, custodial and reporting services, and other brokerage services provided by the broker-dealer.

Research and Soft Dollars

Hillcrest does not use soft dollars and as such, research is not a factor in choosing a broker-dealer.

Brokerage for Client Referrals

Hillcrest does not receive client referrals from any broker-dealers or third parties in return for broker-dealer selection.

Directed Brokerage

Hillcrest does not currently have any directed brokerage relationships.

Order Aggregation

Transactions for each client account generally will be effected independently unless Hillcrest decides to purchase or sell the same securities for several clients at approximately the same time. Hillcrest 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 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 be averaged as to price and

transaction costs and will be allocated among the Advisor's clients in proportion to the purchase and sale orders placed for each client account on any given day. When Hillcrest cannot buy or sell the full amount of securities needed at one time, we allocate the order among participating accounts on a pro rata basis.

REVIEW OF ACCOUNTS

Periodic Reviews

Certain members of the firm act as portfolio managers for client accounts. Each client portfolio is formally reviewed on a quarterly basis by a portfolio manager. In addition, portfolios are monitored daily for price performance and news.

Review Triggers

Triggering factors (buy/sell a new security, risk control parameters, sell discipline) will compel portfolio managers to review accounts on a more frequent basis. Excess market movements, strategy changes by the account or a request from the client will trigger a more immediate review of the account.

Regular Reports

Hillcrest provides clients with a written quarterly account statement that includes an inventory of holdings and a report of account performance.

CLIENT REFERRALS AND OTHER COMPENSATION

Third Party Solicitors

Hillcrest directly compensates South Avenue Investment Partners LLC, an investment adviser registered under the laws of the State of California for third party marketing services. Compensation is a percentage of fee income for clients accepted by Hillcrest.

CUSTODY

Custody

Hillcrest does not take possession of client assets or act as custodian for any of their clients. Our clients' assets are housed in nationally recognized banks or brokerage firms, otherwise known as custodians. Hillcrest has a limited power of attorney to place trades on the client's behalf. If authorized by the client, Hillcrest may also have the authority to directly debit client accounts for quarterly fees, and therefore is deemed to have Custody. See the *Fees and Compensation* section of this brochure for more information on our billing practices.

Account Statements

The client will receive account statements directly from their qualified custodian. Hillcrest urges the client to compare the statement the client receives from the qualified custodian with the statement the client receives from Hillcrest. See the *Review of Accounts* section for more information on the types of reports you will receive from Hillcrest.

INVESTMENT DISCRETION

Discretionary Authority for Trading

Hillcrest has discretionary authority to buy and sell securities in the quantities that it deems fit without first obtaining consent of the client. Hillcrest determines which securities to buy or sell, the total amount of securities to buy or sell, the broker or dealer through which the securities will be bought or sold (unless directed by the client) and the commission rates at which the transactions are executed. Any limitations or restrictions with respect to the exercise of this investment discretion will be those established by the client in writing at the commencement of the advisory relationship or thereafter.

Limited Power of Attorney

Before assuming discretionary authority, Hillcrest requires the client to execute a power of attorney. This is to confirm the appointment of Hillcrest as investment advisor for the account with discretionary authority as agent and attorney-in-fact on behalf of the account. It specifies that power is within all restraints and limitations as specified in client's account guidelines, (a) to buy, sell, exchange, convert and otherwise trade in any security or investment of every kind and description including money market instruments as Advisor may select, and (b) to place orders for the execution of such securities or investment transactions with or through such brokers, dealers, or issuers as Advisor may select, and (c) to establish, transfer, and terminate accounts in clients name with either executing or custodial investment or financial institutions.

It is also understood that Hillcrest may deliver to any securities or investment brokerage firm executing transactions on behalf of the account, a copy of power of attorney as evidence of the authority to Hillcrest to act for account to include voting of proxies and other related shareholder activities in the client's best interest.

VOTING CLIENT SECURITIES

Proxy Voting

When requested by the client, Hillcrest will take appropriate action and/or render advice with respect to the voting of client proxy statements. Hillcrest will vote all client proxy statements with management as we believe that to be in the best interest of our clients. If a client wishes us to vote proxies on their behalf but they would like to dictate the manner in which they should be voted, they may provide that information in writing and Hillcrest will vote their proxies accordingly. If the client chooses to retain their proxy voting rights, that is acceptable to Hillcrest. Clients will stipulate in their management agreement with Hillcrest who will be voting proxies. For those proxies to be voted by Hillcrest, client will inform their custodian that proxies are to be sent directly to Hillcrest. In those instances where the client chooses to retain the right to vote their proxies, they will receive all proxy material directly from their custodian. . Clients may request information on how Hillcrest voted their proxies by contacting Hillcrest in writing. Requests should be addressed to:

Compliance Officer
Hillcrest Asset Management
14180 N. Dallas Parkway
Suite 650
Dallas, TX 75254

FINANCIAL INFORMATION

Financial Condition

Hillcrest does not have any financial condition which is reasonably likely to impair our ability to meet contractual commitments to clients.

REQUIREMENTS FOR STATE-REGISTERED ADVISERS

Identify Principal Executive Officers and Management Person

Brian Bruce, CEO and President. Brian, born October 22, 1955, received his M.B.A. from the University of Chicago, M.S. in Computer Science from DePaul University, and a B.S. in Business Administration from Illinois State University. He is a member of the Illinois State University College of Business Hall of Fame and is winner of the University of Chicago Graduate School of Business CEO Award. Brian is a professor at Southern Methodist University's Cox School of Business teaching both undergraduate and MBA classes which manage over \$6 million of the SMU endowment. Brian served as Chief Investment Officer in charge of equity management and research at PanAgora Asset Management, a \$23 billion institutional manager. Prior to joining PanAgora, he was a full time professor at Southern Methodist University and President and Chief Investment Officer of InterCoast Capital, a Dallas based subsidiary of a fortune 500 energy company. He previously worked at State Street Global Advisors, the Northern Trust Company and Stein Roe & Farnham. Brian has published numerous scholarly articles and books including *Analysts, Lies, and Statistics* which he co-authored with Harvard Business School professor Mark Bradshaw. He is also the Editor-in-Chief of Institutional Investor's Journal of Investing, Editor of the Journal of Behavioral Finance and Editor of the Journal of Trading. Brian frequently appears in the media including NBC, ABC, CNBC, Wall Street Journal, Bloomberg, Washington Post, New York Times, Associated Press, Reuters, Financial Times and Business Week. Brian also serves on many boards of directors including The Center for Investment Research, the CM Family of Mutual Funds and the Institute of Behavioral Finance.

Deborah Trask, Managing Director and Chief Operating Officer. Deborah, born January 5, 1956, received her BA in Business from Northeastern University and her MBA from the University of Texas at Dallas. Prior to joining Hillcrest Asset Management, Deborah did operations and trading for RPF Equity Advisors. From June 1999 until she joined RPF Equity Advisors, Deborah was the Operations Manager and Office Manager for Dana Investment Advisors responsible for all of the trading and operations for its equity strategies. Previously, she was Senior Vice President in charge of operations for InterCoast Capital in Dallas, Texas. Before joining InterCoast, she was a member of the executive committee and responsible for operations of \$15 billion of domestic and international equities at State Street Global Advisors. She was a co-founder in charge of operations at India Wharf Associates. She is Managing Editor for the *Journal of Investing*, the *Journal of Trading* and the *Journal of Behavioral Finance*.

Douglas E. Stark, Managing Director, Portfolio Management and Research. Douglas, born December 22, 1960, received his BA from Arizona State University and his MBA in finance and international business from Columbia University, where he graduated with honors. He is a CFA charter holder. Prior to Hillcrest, he was Partner, Senior Vice President, and Director of Research at Martingale Asset Management. Prior to joining Martingale, Douglas was a Senior Vice President and Portfolio Manager at InterCoast Capital Company where he developed a stock selection strategy and created a risk management process for an active U.S. equity portfolio active international portfolio, and emerging markets portfolio. Douglas started his career at State Street Global Advisors in 1990, where he was a Vice President and management international stock portfolios and active currency overlays.

Describe Business Other Than Investment Advice

Hillcrest does not engage in any other business activities besides providing investment advice.