

Waterfield Asset Management

Form ADV Part 2A- Disclosure Brochure

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Waterfield Asset Management, LLC
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This brochure provides information about the qualifications and business practices of Waterfield Asset Management, LLC. If you have any questions about the contents of this brochure, please contact us at 212-786-184. The information in this brochure has not been approved or verified by the United States Securities and Exchange Commission (SEC) or by any state securities authority. Additional information about Waterfield Asset Management is also available on the SEC's website at www.adviserinfo.sec.gov.

Waterfield Asset Management, LLC is registered with the Securities and Exchange Commission (the "SEC"). SEC registration does not imply a certain level of skill or training.

Item 2: Material Changes

This brochure was initially filed as a new document prepared in accordance with the 2010 amendments to SEC Form ADV on March 9, 2011. It was revised on July 6, 2011 to provide information about assets under management and to identify a new financial industry affiliation.

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Item 4: Advisory Business

THE COMPANY

Waterfield Asset Management, LLC (“Waterfield” or “the firm” or “we”) is a Delaware limited liability company formed, and registered as an investment advisor with the SEC, in 2011. As of January 31st, 2011 affiliates of J. Randall Waterfield, CFA and Richard R. Waterfield owned 100% of the shares outstanding.

INVESTMENT SERVICES

Waterfield provides investment management services to individuals and institutional investors. We also provide financial planning services, and advise our clients in the selection of other investment advisers or mutual funds. Upon request, Waterfield will work with clients to accommodate client-specific restrictions on any of our investment strategies. Financial plans and financial planning may include, but are not limited to: investment planning, life insurance, tax concerns, retirement planning, college planning, and debt/credit planning. Our investment strategies may include investments in common stock, preferred stocks, investment-grade and non-investment grade corporate bonds (including private placements), U.S. Government and agency securities, convertible securities (including stocks and convertible corporate bonds), real estate investment trusts, structured instruments, open and closed-end investment companies, hedge funds and master limited partnerships.

WRAP FEE PROGRAMS

Waterfield does not currently participate in wrap fee programs.

ASSETS UNDER MANAGEMENT

As of July 5th, 2011 Waterfield managed \$133,605,034 on a discretionary basis and \$70,140,823 on a non-discretionary basis.

Item 5: Fees and Compensation

Waterfield reserves the right to negotiate fees. Some clients pay more or less than others depending on certain factors, including but not limited to, the type and size of the account, the range of additional services provided to the client, and the total amount of assets managed for a single client.

The fees that we charge for investment advisory services and payment terms are specified in an agreement between Waterfield and each individual client. The fees are payable quarterly in arrears and are calculated based on the value of the assets in the account at the end of each calendar quarter. Waterfield provides clients fee invoices which contain the amount of the fee, the value of the assets in the account on which the fee was based, and the specific manner in which the fee was calculated. Fees for partial periods are pro-rated.

OTHER FEES OR EXPENSES

Clients may pay other expenses in addition to the fees paid to Waterfield. For example, clients may pay costs such as brokerage commissions, transaction fees, custodial fees, transfer taxes, wire transfer fees, and other fees and taxes charged to brokerage accounts and securities transactions, which are unrelated to the fees collected by Waterfield. (Item 12 provides more

information on our brokerage practices.). Mutual funds and exchange traded funds also charge internal management fees, which are disclosed in a fund's prospectus and/or financial filings.

PRIVATE INVESTMENT FUNDS

Private investment funds may pay Waterfield a management fee and/or a performance-based advisory fee. These fees are described in the investment management and investment advisory agreements between Waterfield and each of the funds. (Item 6 provides more information about performance based fees, and Item 10 provides more information about private investment funds.)

SEPARATE ACCOUNTS

Our fees for separate accounts are based on the value that we expect to add over rolling five-year periods and will vary by investment strategy.

SEPARATE ACCOUNTS

First \$20 million 1.00%

Above \$20 million 0.80%

Minimum separate account size is \$5 million; minimum quarterly fee is \$8,750 for equity accounts.

Item 6: Performance-Based Fees and Side-By-Side Management

A performance-based fee is an advisory fee based on a percent of capital gains on or capital appreciation of client assets. Performance-based fees paid to investment advisers may be significantly higher than the asset-based fees paid on traditional accounts.

We may receive performance-based fees from our private investment funds. We will consider performance-based fee arrangements for separate accounts with greater than \$25 million in assets.

POTENTIAL CONFLICTS OF INTEREST

The receipt of performance-based fees from some separate accounts and our private investment funds creates conflicts of interest. Waterfield can potentially receive higher fees from accounts with a performance-based compensation structure than from those accounts that pay an asset-based fee. For example, Waterfield may have an incentive to direct the best investment ideas to the account that pays a performance-based fee or to allocate or sequence trades in favor of the performance fee account.

To manage these potential conflicts:

- All accounts within a strategy are managed to the strategy's model portfolio.
- Waterfield performs a periodic review of each investment strategy's model portfolio versus each client account. In this review, every position size for each client account is compared to our model weights. In addition, portfolios are monitored by our compliance department for consistency with client objectives and restrictions.

- Waterfield has implemented policies whereby portfolio manager incentive compensation is based solely upon the performance of the respective strategy that they manage. This policy is intended to incent portfolio managers to act in the best interests of all clients regardless of their fee type.
- Waterfield has trade allocation policies and procedures designed to ensure that all clients are treated fairly and equally and to prevent this conflict from influencing the allocation of investment opportunities among clients.

Waterfield has another potential conflict of interest, as an adviser to both long-only accounts and accounts that execute short sales. We could sell short securities in a long-short account while causing long-only accounts to hold the same security long. In this case, we could harm the performance of the long-only accounts for the benefit of accounts that execute short sales, which may include performance-based fee accounts. For example, continually selling a position short may depress the stock price which could harm a long-only account if it holds the same security. To manage this conflict, Waterfield has a specific policy that prohibits a short position from being held as a long position in any other client account that we manage.

Item 7: Types of Clients

Waterfield provides investment management services to high net worth individuals and institutional investors, including registered investment companies, private investment funds, financial institutions, annuity funds, charitable institutions, foundations, municipalities, endowment funds, corporations, corporate pension and profit-sharing plans, and Taft-Hartley plans.

The minimum account size for all separate accounts is \$5 million; however Waterfield may agree to manage separate accounts below our stated minimum account size. (Item 5 provides a discussion of advisory fees for separate accounts.).

Item 8: Methods of Analysis, Investment Strategies and Risk of Loss

WATERFIELD INVESTMENT STRATEGIES

The following are the guiding principles for our investment philosophy:

- Treat every investment as a partial ownership interest in that company.
- Always invest with a margin of safety.

We strive to purchase (or sell short) securities at a sufficient discount (or premium) to our estimate of intrinsic value. If we do this successfully, it will both increase the potential reward and effectively control risk.

- Possess a long-term investment temperament.

In the short term, market prices are driven as much by emotion as economic fundamentals. Over time, the economic performance of the business and the price paid will determine the investment return, not the market.

- Recognize that market price and intrinsic value tend to converge over a reasonable period of time.

The investment opportunity lies in the ability to recognize when the current market price does not reflect our estimate of a company's intrinsic value. By not relying on the market as an indicator of value, we believe the market can be used to our advantage over time. Our investment strategy is active and intrinsic-value focused. Our valuation approach is based on a five-year discounted cash flow methodology for both long and short positions. We do not manage to a benchmark or "closet index." Individual security analysis is of primary importance, followed by a fundamental analysis of industry and sector trends. We are always price conscious. We will only purchase securities that we believe are selling at a discount to our estimate of intrinsic value. We will only sell short securities that we believe are selling at a premium to our estimate of intrinsic value. We estimate the intrinsic value of the business independent of the current stock market price then compare our estimate to the price in order to determine if an opportunity exists. If we do this successfully, it will both increase the potential reward and be the most effective risk control.

Discounted cash flow analysis is the primary methodology used to determine whether there is a discrepancy between the current market price and our estimate of intrinsic value. In order to forecast the amount and timing of cash flows, we concentrate on the fundamental economic drivers of the business and the company's management. We include any knowable and material information that may aid us in forecasting future cash flows. This might encompass the level of industry competition, regulatory factors, the threat of technological obsolescence, and a variety of other factors. Fundamental factors used to estimate the intrinsic value include assumptions for: current earnings, revenue growth, terminal operating margin, terminal price to earnings multiple, and required rate of return.

The portfolio manager for each strategy is ultimately responsible for portfolio decision making, including asset allocation, portfolio construction, and security selection. The portfolio manager does not report to an investment committee.

We will sell a holding (cover a short position) under the following circumstances:

- If the price reaches our estimate of intrinsic value, and there is no reason to adjust our assumptions, then we will exit the position.
- If our estimate of intrinsic value is lowered (raised) and the current market price is no longer at a discount (premium) to our estimate of intrinsic value, then we will exit the position.
- If a more attractive investment opportunity is identified, then we may sell (cover) a holding to raise proceeds.
- If a holding reaches our stated limit of the portfolio at market, then we will reduce the position.

We manage risk through our intrinsic value focused investment philosophy and process. Thus, our primary risk control is to regularly compare current market prices to our estimates of intrinsic value. Portfolio guidelines like position size, industry limits, and sector limits provide for diversification, which further reduces risk.

RISK FACTORS

Investing in securities always involves a risk of loss that investors should understand and be prepared to bear. All of our strategies involve significant risk of loss, and you should be prepared to bear this loss, including a total loss of your investment.

The material risks associated with our strategies include but are not limited to:

Equity Market Risk – Overall stock market risks may affect the value of the investments in equity strategies. Factors such as U.S. economic growth and market conditions, interest rates, and political events affect the equity markets.

Management Risk - Our judgments about the attractiveness, value and potential appreciation of a particular asset class or individual security may be incorrect and there is no guarantee that individual securities will perform as anticipated. The value of an individual security can be more volatile than the market as a whole or our intrinsic value approach may fail to produce the intended results. Our estimate of intrinsic value may be wrong or even if our estimate of intrinsic value is correct, it may take a long period of time before the price and intrinsic value converge.

Small and Mid Cap Company Risk – Investments in small and mid cap companies may be riskier than investments in larger, more established companies. The securities of these companies may trade less frequently and in smaller volumes than securities of larger companies. In addition, small and mid cap companies may be more vulnerable to economic, market and industry changes. Because smaller companies may have limited product lines, markets or financial resources, or may depend on a few key employees, they may be more susceptible to particular economic events or competitive factors than larger capitalization companies.

Short Sale Risk – Short sales are speculative transactions and involve special risks. In order to initiate a short position, a security must be borrowed. Strategies that execute short sales may incur a loss if the price of the security sold short increases in value between the date of the short sale and the date when we purchase the security to replace the borrowed security. Losses are potentially unlimited in a short sale transaction.

Fixed Income Market Risk – Fixed income securities increase or decrease in value based on changes in interest rates. If rates increase, the value of fixed income securities generally declines. On the other hand, if rates fall, the value of the fixed income securities generally increases.

Credit Risk – There is a risk that issuers and counterparties will not make payments on the securities they issue. In addition, the credit quality of securities may be lowered if an issuer's financial condition changes. Lower credit quality may lead to greater volatility in the price of a security which may affect liquidity and our ability to sell the security.

Real Estate Risk – Real Estate Investment Trusts (REITS), although not a direct investment in real estate, are subject to the risks associated with investing in real estate. The value of these securities will rise and fall in response to many factors including economic conditions, the demand for rental property and changes in interest rates

Structured Instrument Risk – Structured instruments may be less liquid than other debt securities, and the price of structured instruments may be more volatile. Although structured

instruments may be sold in the form of a corporate debt obligation, they may not have some of the protection against counterparty default that may be available with publicly traded debt securities.

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 firm or the integrity of the firm's management in this item.

Waterfield has no material legal or disciplinary events to report.

Item 10. Other Financial Industry Activities & Affiliations

As noted in Item 4, Waterfield is owned by affiliates of J. Randall Waterfield, CFA and Richard R. Waterfield, namely the JRW Irrevocable Trust and the Richard R. Waterfield Insurance Trust.

Managers of Waterfield are J. Randall Waterfield, CFA and Richard R. Waterfield.

The Waterfields also have an interest in Cappello Waterfield, LLC, an entity that provides services to Cappello Capital Corp., a FINRA-registered broker dealer. Mr. J. Randall Waterfield is a registered representative of Cappello Capital Corp.

PRIVATE INVESTMENT FUNDS

Waterfield may serve as the Managing Member of private investment funds. Collectively, these funds are referred to as "private investment funds". Items 5 and 6 provide more information relating to the private investment funds. Private investment funds are often referred to as hedge funds and are only offered on a private placement basis to accredited or qualified investors. As discussed in Items 5 and 6, Waterfield may earn both a management fee and a performance-based incentive fee on the private investment funds.

SOLICITOR FEES

Waterfield may enter into an agreement with a broker-dealer or registered investment advisor in which Waterfield pays a set percentage of its management fee and/or performance-based fee to the referring broker-dealer or registered investment advisor. These arrangements, often referred to as Solicitor's Agreements, are more specifically discussed in Item 14.

Item 11: Code of Ethics, Participation or Interest in Client Transactions and Personal Trading

CODE OF ETHICS & PERSONAL TRADING

Waterfield has adopted a Code of Ethics for all employees of the firm describing our high standards of business conduct, fiduciary duty to our clients, and rules surrounding personal securities trading by our employees.

All Waterfield employees must accept in writing the terms of the Code of Ethics upon employment, annually, or as amended.

Waterfield clients or prospective clients may request a copy of the firm's Code of Ethics by contacting the firm's Chief Compliance Officer, by sending an e-mail to info@waterfield.com.
RECOMMENDATIONS INVOLVING MATERIAL FINANCIAL INTERESTS

Waterfield does not recommend that clients buy or sell any security in which a related person has a material financial interest.

PARTICIPATION IN CLIENT TRANSACTIONS

Waterfield may recommend to its clients the purchase or sale of private investment funds. (A discussion of these funds may be found in Item 10 above.). Waterfield earns both a management fee and a performance-based fee on the private investment funds. (A discussion of these fees may be found in Items 5 and 6.). Therefore, potential conflicts of interest exist and are addressed as described in Item 6.

A portion of Waterfield's corporate investment portfolio may be invested in mutual funds or in private investment funds for which Waterfield serves as investment adviser, administrator, general partner, or manager. Employees may also own interests in the private investment funds. These investments may cause a conflict of interest between Waterfield and its advisory clients.

From time to time, representatives of Waterfield may buy or sell securities for themselves that they also recommend to clients. Waterfield will always document any transactions that could be construed as conflicts of interest and will always transact client business before their own when similar securities are being bought or sold.

From time to time, representatives of Waterfield may buy or sell securities for themselves at or around the same time as clients. Waterfield will not trade non-mutual fund or non-ETF securities 5 days prior to or 5 days after trading the same security for clients.

Item 12: Brokerage Practices

BROKER SELECTION & BEST EXECUTION

Obtaining the best trade execution is an important aspect of every trade that we place in a client account. Waterfield selects the brokers to use to execute trades and determines the reasonableness of their compensation based on the range and quality of a broker's services including execution capability, trading expertise, accuracy of execution, commission rates, research, reputation and integrity, fairness in resolving disputes, financial responsibility, and responsiveness.

Waterfield's traders use various trade execution management systems to ensure proper trade management, including fair order allocation and best execution. We have controls in place for monitoring execution in our clients' portfolio transactions, including reviewing trades for best execution. Certain broker-dealers that Waterfield uses to execute client trades are also clients of Waterfield and/or refer clients to Waterfield creating a conflict of interest. To mitigate this conflict, we adopted a policy that prohibits us from considering any factor other than best execution when a client trade is placed with a broker-dealer.

RESEARCH AND OTHER SOFT DOLLAR BENEFITS

Waterfield does not have any commitments or understandings to trade with specific brokers or to generate a specified level of brokerage commission with a particular broker in order to receive brokerage or research services. These commitments or understandings are generally known as soft dollar arrangements. Certain brokers through whom Waterfield executes trades may provide unsolicited proprietary research (research created or developed by the broker) to us. This research is used for all client accounts, even though certain clients may not have paid direct commissions to the brokers who provided the research. This research could include a wide variety of reports, charts, publications or proprietary data on economic and political strategy, credit analysis, or stock and bond market conditions and projections. In addition to unsolicited research, certain brokers may provide invitations to attend conferences and meetings with management representatives of issuers or with other analysts and specialists.

Receipt of research from brokers who execute client trades involves conflicts of interest. An adviser that uses client brokerage commissions to obtain research, products, or services receives a benefit because it does not have to produce or pay for the research, products, or services itself. Consequently, the adviser may have an incentive to select or recommend a broker based on its desire to receive research, products, or services rather than a desire to obtain the most favorable execution, which is in the clients' best interest.

Brokers providing research services, even on an unsolicited basis, may charge commissions for executing portfolio transactions that are higher than the amount of commissions that other brokers would charge for effecting the same transactions. To mitigate this conflict we adopted a policy that prohibits us from considering any factor other than best execution when a client trade is placed with a broker-dealer. Waterfield does not consider referrals when we select or recommend broker-dealers to clients.

DIRECTED BROKERAGE & AGGREGATED TRADES

Although we discourage clients from directing trades to a particular broker-dealer (directed brokerage), we do have clients who request directed trades. Transactions for these clients will generally be executed following the execution of portfolio transactions in other client accounts where Waterfield has full discretion to execute trades. In the event that we do accommodate a directed brokerage relationship, our standard operating procedure will be to place the trade with an executing broker on our approved broker list with instructions to complete the trade through the client-directed broker.

Clients who request directed trades may pay higher brokerage commissions because we may not be able to aggregate orders to reduce transaction costs, and may also receive less favorable prices and execution.

Item 13: Review of Accounts

Client accounts are monitored by our compliance department daily for consistency with client objectives and restrictions. Portfolio managers perform a quarterly review of each client account. In these reviews, every position in each client account is compared to the weights in the appropriate investment strategy model. Reviews may also be triggered by material market, economic or political events, or by changes in clients' financial situations or material additions or withdrawals.

Waterfield issues periodic written reports to its investment advisory clients at least quarterly. These written reports generally contain a list of assets, investment results, and statistical data

related to the client's account. We urge clients to carefully review these reports and compare the statements that they receive from their custodian to the reports that we provide. The information in our reports may vary from custodial statements based on accounting procedures, reporting dates, or valuation methodologies of certain securities.

Item 14: Client Referrals and Other Compensation

Other than the compensation described in Items 5 and 6, Waterfield does not receive an economic benefit from anyone other than its clients. (You may find more information about these relationships in Item 10.).

Waterfield may enter into agreements with broker-dealers or investment advisers that are referred to as Solicitor's Agreements. Under such agreements, Waterfield would pay a percentage of the management fee and/or performance based fee collected from the client to a referring broker-dealer or investment adviser. Clients under these agreements will not be charged fees higher than the standard fees described in Item 5. (See Item 5 for a discussion of Fees and Compensation.).

Item 15: Custody

Waterfield does not provide custodial services to its clients. Client assets are held with banks or registered broker-dealers that are "qualified custodians." Clients will receive statements directly from the qualified custodians at least quarterly. We urge clients to carefully review those statements and compare the custodial records to the reports that we provide them. The information in our reports may vary from custodial statements based on accounting procedures, reporting dates or valuation methodologies of certain securities.

Item 16: Investment Discretion

Waterfield accepts discretionary authority to manage the assets in the client's account. The client appoints Waterfield as attorney-in-fact for purposes of exercising the foregoing power and authority. We observe investment limitations and restrictions that are outlined in each account's investment management agreement.

Item 17: Voting Client Securities

We will allow clients to vote the proxies in their account; however, Waterfield typically accepts authority to vote proxies for our clients' accounts. When we recognize a conflict of interest that impedes our ability to vote a proxy, we will deliver the proxy to the client to be voted. We do not utilize third party proxy voting services. If a client wishes to direct Waterfield to vote in a certain manner for a particular proxy, they should provide such direction in writing to Waterfield at least two weeks prior to the shareholder meeting date. When we vote proxies, our objective is to maximize the value of the securities held in clients' portfolios. We will pay particular attention to the following matters in exercising our proxy voting responsibilities for our clients:

Accountability. Each company should have effective controls in place to hold those entrusted with managing a company's business accountable for their actions. Company management should be accountable to its board of directors and the board should be accountable to shareholders.

Alignment of Management and Shareholder Interests. Each company should seek to align

interests of management and the board of directors with the interests of the company's shareholders. For example, we generally believe that compensation should be designed to reward management for creating value for the shareholders of the company.

Transparency. Each company should provide timely disclosure of important information about its business operations and financial performance to enable investors to evaluate the company's performance and to make informed decisions about the purchase and sale of the company's securities. You may obtain a copy of our proxy voting policy upon request.

Item 18. Financial Information

In certain circumstances, registered investment advisers are required to provide you with financial information or disclosures about their financial condition in this Item. Waterfield has no financial commitment that impairs its ability to meet contractual and fiduciary commitments to clients and has never been the subject of a bankruptcy proceeding.