

# **AMERICAN MONEY MANAGEMENT CORPORATION**

## **Form ADV Part 2A (Disclosure Brochure)**

**March 31, 2016**

American Money Management Corporation  
301 East Fourth Street, 27<sup>th</sup> Floor  
Cincinnati, Ohio 45202  
Phone: (513) 579-2121  
Fax: (513) 579-2580

This brochure provides information about the qualifications and business practices of American Money Management Corporation. If you have any questions about the contents of this brochure, please contact us at (513) 579-2121. The information in this brochure has not been approved or verified by the United States Securities and Exchange Commission (the “SEC”) or by any state securities authority.

Additional information about American Money Management Corporation also is available on the SEC’s website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov). Registration with the SEC does not imply a certain level of skill or training.

**Item 2.**  
**Material Changes**

In connection with the filing of annual amendments to its Form ADV, American Money Management Corporation (“AMMC”) is required to inform its clients of any material changes that AMMC has made to its Disclosure Brochure since its last annual update. AMMC last updated its Disclosure Brochure in March 2015. AMMC made no material changes to its Disclosure Brochure since the last annual update.

**Item 3.**  
**Table of Contents**

	Page No.
<b>Item 1.</b> Cover Page.....	1
<b>Item 2.</b> Material Changes .....	2
<b>Item 3.</b> Table of Contents .....	3
<b>Item 4.</b> Advisory Business .....	4
<b>Item 5.</b> Fees and Compensation .....	5
<b>Item 6.</b> Performance-Based Fees and Side-by-Side Management .....	7
<b>Item 7.</b> Types of Clients .....	8
<b>Item 8.</b> Methods of Analysis, Investment Strategies and Risk of Loss .....	8
<b>Item 9.</b> Disciplinary Information .....	13
<b>Item 10.</b> Other Financial Industry Activities and Affiliations .....	13
<b>Item 11.</b> Code of Ethics, Participation or Interest in Client Transactions and Personal Trading ..	14
<b>Item 12.</b> Brokerage Practices .....	15
<b>Item 13.</b> Review of Accounts.....	17
<b>Item 14.</b> Client Referrals and Other Compensation .....	17
<b>Item 15.</b> Custody .....	17
<b>Item 16.</b> Investment Discretion .....	18
<b>Item 17.</b> Voting Client Securities .....	18
<b>Item 18.</b> Financial Information .....	18

#### **Item 4.**

#### **Advisory Business**

American Money Management Corporation (“AMMC”) is an investment adviser based in Cincinnati, Ohio. AMMC was formed in 1973 as a corporation organized under the laws of the State of Ohio. AMMC is a direct wholly-owned subsidiary of American Financial Group, Inc. (“American Financial”), an Ohio corporation and holding company that, through the operations of Great American Insurance Group, is engaged primarily in property and casualty insurance, focusing on specialized commercial products for businesses, and in the sale of fixed and fixed-indexed annuities in the retail, financial institutions and education markets. AMMC primarily provides investment management services to American Financial, its subsidiaries and certain third-party pooled investment vehicles that are organized as private funds.

Also, beginning in December, 2015, AMMC has provided investment management services, solely on a transitional basis, to the acquirer of an insurance business, which was in run-off, sold by American Financial. The assets managed for this divested insurance business (the “Transition Assets”) consist solely of approximately \$1.2 billion of assets which were owned by a subsidiary of American Financial and were managed by AMMC prior to the sale. Except as requested by the acquirer in connection with the transition of the investment management services, AMMC will utilize the same investment strategy and tactics in managing the Transition Assets as were in place prior to the sale. All Transition Assets will be transitioned to a new asset manager as designated by the acquirer no later than 12 months following the sale, and the transition of management of the Transition Assets may occur in a single block or in multiple blocks, depending on regulatory matters and other acquirer considerations.

AMMC does not specialize in a particular type of advisory service or provide advice only with respect to limited types of investments. Instead, AMMC tailors its investment management solutions to the unique needs of its clients and is an active participant in both the public and private debt and, to a lesser extent, the equity capital markets as an investment manager. AMMC’s portfolios of managed assets may generally include, but are not limited to, cash, senior secured and unsecured bank loans, high yield debt securities, investment grade debt securities, asset-backed and mortgage-backed securities, real estate investments, private placements, mezzanine and subordinated investments, municipal bonds and equity securities. AMMC may also invest in pooled investment vehicles, market index securities and publicly traded investment companies (such as mutual funds and exchange traded funds (“ETFs”). AMMC also engages in derivative transactions for subsidiaries of American Financial in order to hedge interest rate and index risks for such subsidiaries. Such transactions may include, but are not limited to, interest rate swaps and forward purchase contracts.

AMMC provides discretionary investment management services to affiliated companies and non-affiliated private funds on an ongoing basis. With respect to affiliated companies’ portfolios, as of December 31, 2015, approximately 93% was invested in fixed maturity securities and cash, 5% was invested in equity securities and the remainder was invested in other investments.

Investment management services are provided by AMMC in a discretionary capacity pursuant to, for affiliated companies, an advisory agreement between each company and AMMC, and for non-affiliated private funds, a collateral management agreement. AMMC tailors its investment management services to the unique needs of each client and employs a disciplined investment process that assesses each client's objectives, return expectations, risk tolerance and investment constraints based upon information provided by each client. Clients may impose restrictions on investing in certain securities or certain types of securities. Based on the client's investment objectives and restrictions, AMMC determines the appropriate asset allocation for a client's securities portfolio on an ongoing basis. Clients must notify AMMC should there be any changes to their financial circumstances, needs, objectives and/or tolerance for risk or other circumstances relevant to management of their account. In addition, the scope of advisory services provided to a client may be changed from time to time as AMMC and the client may agree or pursuant to the client's written instructions.

With respect to the non-affiliated private funds to which AMMC provides investment advice, AMMC has established a CLO Credit Committee. The CLO Credit Committee is responsible for making all material portfolio management decisions with respect to the non-affiliated private funds. AMMC is not required to maintain the CLO Credit Committee in its current form or in any form and may appoint any person to or remove any person from the CLO Credit Committee and may terminate the CLO Credit Committee at any time.

AMMC does not participate in wrap fee programs.

AMMC primarily manages client accounts on a discretionary basis. This means that AMMC is authorized to direct execution of transactions in these accounts without transaction-by-transaction consultation with the client. AMMC may also manage client accounts on a non-discretionary basis. As of December 31, 2015, AMMC managed approximately \$41,800,000,000 of client assets on a discretionary basis and \$0 of client assets on a non-discretionary basis.

## **Item 5.**

### **Fees and Compensation**

With respect to advisory services that AMMC provides to American Financial's subsidiaries, AMMC is paid, proportionately by each subsidiary by reference to assets under management, an amount equal to AMMC's net expenses. Net expenses are calculated by adding direct expenses plus an allocation of indirect expenses, including rent and other AMMC overhead expenses. All fee revenue earned by AMMC from clients other than subsidiaries of American Financial during the period is directly offset, proportionately, from reimbursable amounts from subsidiaries. Fees paid by the subsidiaries are calculated by AMMC quarterly (on the last business day of each quarter) based upon the closing market value of each client's account. Subsidiary clients also pay other quarterly fees, including direct expenses such as brokerage and custodian fees and indirect expenses. Fees and expenses are not deducted from affiliated client accounts.

With regard to the Transition Assets, AMMC is charging a monthly management fee in arrears based on the average of the closing values of the Transition Assets as calculated on the first and last day of each month. The acquirer of the Transition Assets also pays other fees, including direct expenses such as brokerage and custodian fees and indirect expenses.

With respect to advisory services that AMMC provides to non-affiliated private funds, each of which is considered a “qualified client” under Rule 205-3(d)(1) under the Investment Advisers Act of 1940, AMMC receives a negotiated fee based upon a percentage of the private fund’s assets under management. AMMC may also be compensated based on a negotiated performance-based fee arrangement. Fixed fee arrangements and performance-based fee arrangements are negotiated with each client on a case-by-case basis and are fully disclosed in the offering documents for each private fund. Fees charged to the non-affiliated private funds are charged quarterly based upon contractual calculations of the assets under management during the period and such fees are paid by the trustee for the non-affiliated private fund. A portion of such fees are paid prior to scheduled distributions to the security holders, and a portion of such fees are subordinated to certain payments to security holders and, in each case, the payment of such fees is subject to the available collections.

As previously discussed, as of the date of this Disclosure Brochure, except with respect to the management of the Transition Assets, AMMC has no other clients except for American Financial’s subsidiaries and the non-affiliated private funds. If AMMC should acquire additional clients, AMMC expects to be compensated for providing advisory services based upon a percentage of the client’s assets under management. AMMC does not have a set fee schedule and will negotiate fee arrangements with each client on a case-by-case basis. Such fees may differ based on a number of factors, including, but not limited to: the overall client relationship; the type of account, including the types of assets in which the client seeks to invest; the size of the account; the types of securities held and managed (equity vs. fixed income, actively traded vs. private placement, liquid vs. illiquid, etc.); the number and range of supplemental advisory and client-related services to be provided to the client; business considerations; the cost of providing the service; the nature and quality of the service provided; the extent to which AMMC realizes economies of scale as the account grows larger; the volume of purchase and sale orders being processed for the account; the amount of assets that the client is willing to invest; whether or not AMMC will actively research, monitor and trade the holdings of the account to seek a higher return than the market as a whole; whether the client seeks to obtain the investment results of an established market index, such as the Standard and Poor’s 500, by closely approximating the holdings included in the index; and the fees charged by other advisers performing similar functions.

AMMC may utilize exchange traded funds (“ETFs”) and/or publicly traded investment companies (mutual funds) as investment vehicles in a client’s investment portfolio. These investment vehicles incur costs and expenses and are managed by independent fund advisers. Clients should understand that fund advisers charge these funds a fee that is distinct and separate from the fee charged by AMMC. A client could invest in these investment vehicles directly,

without the services of AMMC. A client could also invest in these products through other brokers, agents, or investment advisers that are not affiliated with AMMC. Clients should evaluate the fees incurred in connection with these investment vehicles and the advisory fees charged by AMMC to understand fully the total amount of fees paid.

In addition to the advisory fees assessed by AMMC, each client will also be required to pay all custodial fees, brokerage fees and other transaction costs incurred in connection with AMMC's investment advisory services. These fees will be paid by the client directly to the client-designated custodian or broker-dealer, as applicable. See Item 12—Brokerage Practices for a discussion of AMMC's brokerage arrangements in greater detail.

Neither AMMC nor its supervised persons accept compensation for the sale of securities or other investment products, including asset-based sales charges or service fees from the sale of mutual funds.

#### **Item 6. Performance-Based Fees and Side-by-Side Management**

With respect to advisory services that AMMC provides to non-affiliated private funds, each of which is considered a "qualified client" under Rule 205-3(d)(1) under the Investment Advisers Act of 1940, AMMC may be compensated based on a case-by-case negotiated performance-based fee arrangement. Performance-based fees are fees that are based on a share of capital gains on or capital appreciation of a client's assets. AMMC's performance-based fee arrangements are negotiated with each client on a case-by-case basis.

AMMC may manage accounts that are charged a performance-based fee, accounts that are charged a flat fee and accounts that are charged a fee based on a percentage of the client's assets under management or some combination of performance-based fees and fees based on assets under management. Managing these different types of accounts at the same time creates a conflict of interest for AMMC as AMMC and its supervised persons have an incentive to favor accounts for which AMMC or its supervised persons receive a performance-based fee. AMMC has an incentive to favor performance-based fee accounts because, by directing better performing securities to these accounts, AMMC and its supervised persons could realize higher fees than if they directed the better performing stocks to accounts that are charged a flat fee or are charged a fee based on a percentage of the client's assets under management.

AMMC makes complete and full disclosure of all fee arrangements, including performance-based fee arrangements, that it has with non-affiliated private funds. AMMC does not consider whether an account may be responsible for paying a performance-based fee in determining which account(s) will purchase assets. AMMC's first consideration in determining whether to purchase or sell securities for a client's account is an evaluation of the client's portfolio needs based upon that client's objectives, contractual limitations and directions. In instances where (i) purchasing (or selling) a particular security is in the best interest of more than one client and (ii)

each client cannot purchase (or sell) to the fullest extent dictated by their portfolio needs, then such investments (or sales) are allocated as close to proportionately as possible among those clients based on each client's current portfolio needs and other various factors and equitable principles. When it is appropriate for one or more managed private funds and one or more subsidiaries of American Financial to purchase an asset, such investment is first allocated among such managed private funds before any purchases are allocated to subsidiaries of American Financial.

### **Item 7. Types of Clients**

In addition to the temporary management of the Transition Assets (see Item 4—Advisory Services), AMMC currently provides investment advisory services to the following types of clients: affiliated entities that are organized as insurance companies, affiliated entities that are organized as insurance holding companies and non-affiliated pooled investment vehicles (other than investment companies) that are organized as private funds. In the future, AMMC may expand its business model to provide investment advisory services to additional types of clients, including, but not limited to, non-affiliated insurance companies, non-affiliated insurance holding companies and other large institutional clients.

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

AMMC designs, constructs and manages investment portfolios that are specific to the objectives of each individual client. AMMC's primary investment strategy is to seek long-term returns through disciplined security selection, portfolio diversity and an integrated approach to risk management. AMMC selects and monitors investments to balance the goals of safety, stability, liquidity, growth and after-tax total return with our clients' stated investment requirements and preferences. AMMC's investing activities are guided by a balancing of the risks and potential rewards associated with each transaction and the requirements of each client portfolio.

AMMC aims to achieve a relatively stable income stream by maintaining a broadly based portfolio including, but not limited to, cash, senior secured and unsecured bank loans, high yield debt securities, investment grade debt securities, asset-backed and mortgage-backed securities, real estate investments, private placements, mezzanine and subordinated investments, municipal bonds and equity securities. These holdings are supplemented by investments in additional asset types with the objective of further enhancing portfolio diversification and expected returns.

AMMC's investment policy and strategy are reviewed and approved by senior management whom meet on a regular basis to review and consider investment activities, tactics and new investment classes. In addition, AMMC has an experienced team of investment personnel responsible for managing and administering the investment portfolios of its clients.



AMMC attempts to diversify investments across various asset classes and within asset classes to reduce the risk profile of an investment portfolio over the long-term while in pursuit of returns that may help a client achieve its long-term financial objectives. Diversification does not necessarily reduce risk over shorter periods of time whereby asset classes can exhibit extraordinarily high correlations. Nor does diversification provide any guarantee that loss of principal invested in any asset class will not occur.

AMMC may in its discretion, but is not required to, deviate significantly from the client's stated investment objectives and invest in cash, high-quality short-term debt securities and money market instruments for temporary defensive purposes in response to adverse market, economic, political or other conditions. These short-term debt securities and money market instruments may include, but are not limited to, cash equivalents, shares of money market mutual funds, commercial paper, certificates of deposit, bankers' acceptances, time deposits, U.S. government securities and repurchase agreements.

AMMC employs fundamental securities analysis in formulating investment advice for its clients.

Fundamental security analysis involves researching individual companies and their securities to assess the risk/reward characteristics of those companies. Securities viewed as undervalued relative to their intrinsic value in the opinion of AMMC are considered for purchase. Financial statement analysis, strategy assessment and management capability are components of fundamental analysis. AMMC also employs traditional value and credit analysis in formulating investment advice for its clients. Traditional value analysis involves determining which shares or fixed income securities are underpriced based on some form of fundamental analysis. Credit analysis involves evaluating a company's credit metrics, market position and sustainability of its business. Some traditional credit metrics include: interest coverage ratios, debt/net debt to capital ratios and debt to cash flow ratios. Errors in judgment in these analyses can lead to losses clients should be prepared to bear. In addition to errors in judgment, forecasts can be inaccurate, market valuations can change and companies can miss on their forward guidance of financial and operating results. Each of these occurrences can also lead to losses clients should be prepared to bear.

Investing in securities involves risk of loss that clients should be prepared to bear. In addition, transactions also contain transaction costs associated with conducting a trade and the settlement process as well as potential tax consequences. A client's account will fluctuate in value as market conditions change and the client could lose all or portion of the value of the account over short or even long periods of time.

AMMC will principally recommend fixed income investments and equity securities for client accounts. The principal risks of investing in fixed income securities, equity securities and pooled investment vehicles are:

*Fixed Income Securities Risks.* Debt securities are subject to the following risks:

- *Credit Risk.* Issuers of fixed income securities may be unable to make principal and interest payments when they are due. There is also the risk that the securities could lose value because of a loss of confidence in the ability of the issuer to pay back debt. The degree of credit risk for a particular security may be reflected in its credit rating. Lower rated fixed income securities involve greater credit risk, including the possibility of default or bankruptcy.
- *Interest Rate Risk.* Fixed income securities could lose value because of interest rate changes. For example, bonds tend to decrease in value if interest rates rise. Fixed income securities with longer maturities sometimes offer higher yields, but are subject to greater price shifts as a result of interest rate changes than debt securities with shorter maturities.
- *Prepayment Risk.* Prepayment occurs when the issuer of a debt security repays principal prior to the security's maturity. During periods of declining interest rates, issuers may increase pre-payments of principal causing AMMC to invest in fixed income securities with lower yields thus reducing income generation. Similarly, during periods of increasing interest rates, issuers may decrease pre-payments of principal extending the duration of debt securities potentially to maturity. Fixed income securities with longer maturities are subject to greater price shifts as a result of interest rate changes. Also, if AMMC is unable to liquidate lower yielding securities to take advantage of a higher interest rate environment, its ability to generate income on behalf of clients may be adversely affected. The potential impact of prepayment features on the price of a debt security can be difficult to predict and result in greater volatility.

*Equity Securities Risk.* Investments in equity securities are susceptible to general stock market fluctuations and to volatile increases and decreases in value as market confidence in and perceptions of their issuers change. These investor perceptions are based on various and unpredictable factors including: expectations regarding government, economic, monetary and fiscal policies; inflation and interest rates; economic expansion or contraction; global or regional political, economic and banking crises; and factors affecting specific industries, sectors or companies in which AMMC invests on behalf of clients. The value of a client's investment portfolio and the corresponding investment return will fluctuate based upon changes in the value of its portfolio securities.

*Large-Cap Company Risk.* Investments in larger, more established companies are subject to the risk that larger companies are sometimes unable to attain the high growth rates of successful, smaller companies, especially during extended periods of economic expansion. Larger, more established companies may be unable to respond quickly to new competitive challenges such as changes in consumer tastes or innovative smaller competitors potentially resulting in lower market prices for their common stock.

*Mid-Cap and Small-Cap Companies Risk.* Investments in mid-cap and small-cap companies are subject to the risk that they may not have the management experience, financial resources,

product diversification and competitive strengths of large-cap companies. Therefore, their securities may be more volatile and less liquid than the securities of larger, more established companies. Mid-cap and small-cap company stocks may also be bought and sold less often and in smaller amounts than larger company stocks. Because of this, if AMMC wants to sell a large quantity of a mid-cap or small-cap company stock, it may have to sell at a lower price than it might prefer, or it may have to sell in smaller than desired quantities over a period of time. Analysts and other investors may follow these companies less actively and therefore information about these companies may not be as readily available as that for large-cap companies.

*Government-Sponsored Entities Risk.* Investments in U.S. government obligations include securities issued or guaranteed as to principal and interest by the U.S. government, its agencies or instrumentalities, such as the U.S. Treasury. Payment of principal and interest on U.S. government obligations may be backed by the full faith and credit of the United States or may be backed solely by the issuing or guaranteeing agency or instrumentality itself. There can be no assurance that the U.S. government will provide financial support to its agencies or instrumentalities (including government-sponsored enterprises) where it is not obligated to do so.

*Junk Bonds Risk.* Investments in bonds that are rated below investment grade, commonly known as “junk bonds” generally provide high income in an effort to compensate investors for their higher risk of default, which is the failure to make required interest or principal payments. Investments in junk bonds have speculative or predominately speculative characteristics. Junk bonds are not investment grade securities and involve greater risk of default or price changes due to changes in the issuers’ creditworthiness than do higher quality securities. In addition, the market prices of lower rated securities may decline significantly in periods of general economic difficulty or rising interest rates. As a result, junk bonds present a significant risk for loss of principal and interest. The market for these securities may also be thinner and less active than that for higher quality securities, which may adversely affect the ability to sell the bonds as well as the price at which they can be sold. Due to the potential for limited liquidity, the prices for junk bonds may also not be readily available.

*Private Securities Risk.* AMMC may also invest client assets in securities, which are not publicly traded on an exchange or other market. Investments in private securities are subject to greater price volatility and illiquidity than investments in publicly traded securities. There may be a limited or no market for such securities and it may be difficult to sell such securities at prices which AMMC considers to be appropriate, which may result in AMMC being required to hold private securities for an indefinite period of time. In addition, the issuers of such securities may not be required to provide substantial disclosure regarding their results of operations, making it less likely that securities prices will be based on full and complete information about the issuer. Companies that list their stocks on public exchanges must meet certain minimum listing standards, which generally result in greater disclosures and protections to investors.

*Foreign Securities Risk.* AMMC may also invest client assets in foreign securities, which are subject to special risks. Foreign securities can be more volatile than domestic (U.S.) securities.

Securities markets of other countries are generally smaller than U.S. securities markets. Many foreign securities may be less liquid and more volatile than U.S. securities, which could affect client investments.

*ETF, Mutual Fund and Index Fund Risk.* Exchange traded funds (“ETFs”) are typically open-end investment companies that are bought and sold on a national securities exchange. When AMMC invests a client’s assets in an ETF, mutual fund, or index fund, the client will bear additional expenses based on its pro rata share of that pooled investment vehicle’s operating expenses, including the potential duplication of management fees. The risk of owning any pooled investment vehicle generally reflects the risks of owning the underlying securities it holds. Many pooled investment vehicles seek to replicate a specific benchmark index. However, a pooled investment vehicle may not fully replicate the performance of its benchmark index for many reasons, including because of the temporary unavailability of certain index securities in the secondary market or discrepancies between the pooled investment vehicle and the index with respect to the weighting of securities or the number of stocks held. Lack of liquidity in a pooled investment vehicle could result in a pooled investment vehicle being more volatile than the underlying portfolio of securities it holds. In addition, because of a pooled investment vehicle’s expenses, compared to owning the underlying securities directly, it may be more costly to own pooled investment vehicles.

*Mortgage-Related and Other Asset-Backed Securities Risk.* Mortgage-related and other asset-backed securities often involve risks that are different from or more acute than risks associated with other types of debt instruments. Payments on mortgage-related securities and asset-backed securities depend solely on payments received from the underlying pools of mortgages or other assets and are not issued by entities with substantial business operations. Generally, rising interest rates tend to extend the duration of fixed rate mortgage-related securities, making them more sensitive to changes in interest rates. As a result, in a period of rising interest rates, if a client holds mortgage-related securities, it may exhibit additional volatility. This is known as extension risk. In addition, adjustable and fixed rate mortgage-related securities are subject to prepayment risk. When interest rates decline, borrowers may pay off their mortgages sooner than expected. This can reduce the returns of the security because the adviser may have to reinvest that money at the lower prevailing interest rate. Asset-backed securities are subject to risks similar to those associated with mortgage-related securities, as well as additional risks associated with the nature of the assets and the servicing of those assets.

*Derivatives Risk.* AMMC and any funds in which it invests, may invest in derivatives. Derivatives are financial contracts whose value depend on, or are derived from, the value of an underlying asset, reference rate or index. AMMC and any funds in which it invests, may use derivatives as a substitute for taking a position in the underlying asset and/or as part of a strategy designed to reduce exposure to other risks, such as interest rate or currency risk. The various derivative instruments that AMMC and any funds in which it invests, may use are options, futures, swaps and credit default swaps, among others. AMMC and any funds in which it invests, may also use derivatives for leverage, in which case their use would involve leveraging risk. Use

of derivative instruments involves risks different from, or possibly greater than, the risks associated with investing directly in securities and other traditional investments. Derivatives are subject to a number of risks, such as liquidity risk, interest rate risk, market risk, credit and counterparty risk and management risk. They also involve the risk of mispricing or improper valuation and the risk that changes in the value of the derivative may not correlate perfectly with the underlying asset, rate or index. A person investing in a derivative instrument could lose more than the principal amount invested. Also, suitable derivative transactions may not be available in all circumstances and there can be no assurance that AMMC will engage in these transactions to reduce exposure to other risks when that would be beneficial.

*Collateralized Debt Obligation Risk.* Collateralized debt obligations (“CDOs”) are securitized interests in pools of non-mortgage debt assets. The assets usually comprise loans or debt instruments. Investors bear the credit risk of the underlying assets. If there are defaults or the CDO’s collateral otherwise underperforms, scheduled payments to senior tranches take precedence over those of mezzanine tranches and scheduled payments to mezzanine tranches take precedence over those to subordinated/equity tranches. In addition, CDOs are subject to prepayment risk. When interest rates decline, borrowers may pay off their debts sooner than expected. This can reduce the returns of the security because the adviser may have to reinvest that money at the lower prevailing interest rate. CDOs are further subject to risks similar to those associated with other asset backed securities, as well as additional risks associated with the nature of the assets and the servicing of those assets. There is also a risk that CDO tranches, especially the riskier equity tranches and the ones with relatively low credit ratings, will start to default. CDO’s are generally illiquid securities. If AMMC is forced to liquidate CDOs, then the price it receives might well be much lower than the actual credit risk on those CDOs might suggest.

The private funds that AMMC manages pursuant to collateral management agreements are organized as CDOs and invest primarily in broadly syndicated bank loans. Additional information regarding the investment portfolios of the private funds are set forth in the offering documents for each such private fund.

#### **Item 9. Disciplinary Information**

The disclosures required under this Item of Form ADV Part 2 are not applicable to AMMC. There are no legal or disciplinary events that are material to a client’s or prospective client’s evaluation of AMMC’s advisory business or the integrity of its management.

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

American Financial, AMMC’s parent company, is a holding company that, through subsidiaries, is engaged primarily in property and casualty insurance, focusing on specialized commercial

products for businesses, and in the sale of fixed and fixed-indexed annuities in the education, bank and individual markets. AMMC currently provides investment management services to American Financial and its subsidiaries. AMMC's affiliated client accounts constitute approximately 90% of its assets under management. In addition, some of AMMC's directors, officers and employees also serve as directors, officers and employees for these affiliates.

The fact that AMMC's affiliated client accounts constitute a material portion of its assets under management creates a conflict of interest whereby AMMC and its supervised persons have an incentive to favor accounts of affiliates over the accounts of third parties. AMMC has an incentive to favor the accounts of affiliates because, by directing better performing securities to these accounts, AMMC and its supervised persons will strengthen the overall financial positions of AMMC's parent company. In addition, the fact that AMMC's affiliated client accounts constitute a material portion of its assets under management creates a conflict of interest whereby AMMC and its supervised persons have an incentive to direct better performing securities to their largest clients (*i.e.*, the affiliated companies).

AMMC's first consideration in determining whether to purchase or sell securities for a client's account is an evaluation of the client's portfolio needs based upon that client's objectives and directions. In instances where (i) purchasing (or selling) a particular security is in the best interest of more than one client and (ii) each client cannot purchase (or sell) to the fullest extent dictated by their portfolio needs, then such investments (or sales) are allocated as close to proportionately as possible among those clients based on each client's current portfolio needs and other various factors and equitable principles. When it is appropriate for one or more managed private funds and one or more subsidiaries of American Financial to purchase an asset, such investment is first allocated among such managed private funds before any purchases are allocated to subsidiaries of American Financial.

While AMMC does not recommend or select other investment advisers for its clients, through the investments by certain affiliated companies in private securities, AMMC pays customary management fees to the manager of the investment vehicle.

#### **Item 11.**

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

AMMC has established a code of ethics and written policies and procedures that are premised on the principles of integrity, honesty and trustworthiness. Under the code of ethics, the Company and each of its employees has an affirmative duty of care, loyalty, honesty and good faith and must always act in the best interests of AMMC's clients. The code of ethics also contains standards of business conduct that AMMC and its supervised persons are required to follow that reflect AMMC's fiduciary obligations and those of its supervised persons; provisions requiring AMMC's supervised persons to comply with applicable federal securities laws; provisions that require all of AMMC's access persons to report and AMMC to review, their personal securities transactions and holdings periodically; provisions requiring supervised persons to report any

violations of the code of ethics promptly to AMMC's chief compliance officer; and provisions requiring AMMC to provide its supervised persons with a copy of its code of ethics and any amendments and requiring supervised persons to provide written acknowledgment of their receipt of the code of ethics and any amendments.

AMMC will provide a copy of its code of ethics to any client or prospective client upon request.

AMMC's employees are permitted to buy or sell securities for their personal trading accounts that AMMC or its employees also recommend to clients. This presents a conflict of interest whereby the interest of AMMC's employees may not directly align with the best interest of AMMC's clients. AMMC has addressed this conflict of interest by instituting the following policies. AMMC maintains a restricted securities list, consisting of certain large holdings that are managed by AMMC, were recently sold by AMMC, are under consideration for acquisition by AMMC, or that may otherwise pose a conflict of interest. In order to execute a personal trade in any security on the restricted securities list, AMMC's employee must submit to AMMC's Chief Compliance Officer ("CCO"), a written request to engage in the transaction, which request must be pre-approved by the CCO before the employee may execute any trades in his or her personal account. Any supervised person who purchases a security pursuant to this pre-approval process is required to hold such security for a minimum of 30 days.

In certain instances, AMMC's subsidiaries invest in the third-party pooled investment vehicles organized as private funds to which AMMC provides investment advice. Clients should understand that AMMC charges these non-affiliated private funds a fee that is distinct and separate from the fee charged by AMMC to its subsidiaries. A conflict of interest arises because AMMC is buying securities for its subsidiaries and receiving fees for management in addition to fees from the non-affiliated private fund. AMMC addresses this conflict of interest by making complete and full disclosure of all fee arrangements that it has with these non-affiliated private funds before recommending that a client invest in these funds. In addition, AMMC informs clients that they should evaluate the fees incurred in connection with these investment vehicles and the advisory fees charged by AMMC to understand fully the total amount of fees paid.

## **Item 12.**

### **Brokerage Practices**

AMMC seeks to obtain best execution when executing trades on behalf of clients. AMMC's general objective in selecting broker-dealers is to obtain the best combination of security price and transaction costs. In selecting broker-dealers and determining the reasonableness of broker-dealer compensation, AMMC considers, among other things, such factors as execution capability; financial responsibility; responsiveness to AMMC; the commission rate or spread involved; the value and range of research products and services provided or paid for by a broker-dealer (include research reports on companies, industries and securities, economic and financial data, financial publications and services); quality of execution (accurate and timely execution, clearance and settlement capabilities and error/ dispute resolution); reputation, financial strength

and stability; willingness and ability to execute difficult transactions; AMMC's knowledge of actual or apparent operational problems of any broker-dealer; efficient access to markets; overall costs of a trade (*i.e.*, net price paid or received) including commissions, markups or spreads in the context AMMC's knowledge of negotiated rates currently available and other current transactions costs; nature of the security and the available market makers; desired timing of the transaction and size of trade; confidentiality of trading activity; ability to place trades in difficult international market environments; timeliness and accuracy of trade confirmations; record retention services provided; and custody services provided.

The term "soft dollars" is not defined under the federal securities laws. It generally refers to practices in which broker-dealers provide products and services (such as investment research) to advisers or other persons in exchange for the adviser executing client brokerage transactions through the broker dealer. The term is also used to refer to the calculation of the dollar amount of credits, based on the volume of brokerage commissions on transactions executed through a broker, that an adviser can use to purchase brokerage and research services.

AMMC currently has no soft dollar arrangements and has adopted a policy against entering into any soft dollar arrangements. In addition, AMMC does not currently have any formal agreements whereby it is obligated to direct client transactions to a particular broker-dealer in return for soft dollar benefits. If AMMC determines to enter into soft dollar arrangements in the future, AMMC will follow Section 28(e) of the Securities Exchange Act of 1934, will adopt policies and procedures that are substantially similar to its previously-adopted policies and procedures for soft dollar arrangements and will revise this disclosure brochure accordingly.

Ultimately, AMMC places trades for its clients' accounts subject to its duty of best execution and other fiduciary duties. AMMC does not consider, in selecting or recommending broker-dealers, whether or not those broker-dealers provide client referrals to AMMC or its related persons.

AMMC does not routinely recommend, request, or require that a client direct AMMC to execute transactions through a specified broker-dealer. However, on a case-by-case basis, AMMC may permit clients to direct brokerage. In those situations, AMMC may be unable to achieve most favorable execution of client transactions. Directing brokerage may cost clients more money. For example, in a directed brokerage account, the client may pay higher brokerage commissions because AMMC may not be able to aggregate orders to reduce transaction costs, or the client may receive less favorable prices.

In certain instances, AMMC will aggregate the purchase or sale of securities for various client accounts. This is also known as block trading or bunching transactions. Typically this method is used when AMMC perceives that it will provide timeliness efficiencies or when it will result in a beneficial commission price for each client. AMMC generally permits block trading if it determines that the block trade is in the best interests of each client participating in the order, consistent with AMMC's duty to obtain best execution and consistent with the terms of the investment advisory agreement of each participating client.



**Item 13.**  
**Review of Accounts**

AMMC conducts an annual review of each client account. The review includes an assessment of the account's asset allocation versus the target asset allocation identified in initial (and ongoing) consultation with the client. The review also includes an assessment of the account's performance. Account reviews are conducted by senior executives of AMMC.

AMMC does not send periodic written reports to clients regarding their account holdings. Affiliated companies are provided continuous access to account information electronically and affiliated companies can access portfolio information and generate reports at any time. Private fund clients receive monthly, quarterly and annual reports prepared and sent by the fund's trustee.

AMMC will conduct a non-annual review of a client's account upon request or in situations in which the personnel of AMMC know that the client has undergone a significant change in circumstances that may result in a modification of investment objectives.

Except as otherwise provided in this document, AMMC may, but is not required to, (i) provide clients with a printed valuation document (including a holdings list) covering their accounts on a quarterly basis and/or (ii) provide detailed valuation and year-to-year comparisons annually (or more frequently upon client request).

**Item 14.**  
**Client Referrals and Other Compensation**

AMMC does not receive any economic benefit from anyone who is not a client for providing advisory services to clients. Neither AMMC nor any related person either directly or indirectly compensates any person who is not a supervised person of AMMC for client referrals.

**Item 15.**  
**Custody**

AMMC does not have custody of client funds, securities or other assets. Clients generally enter into custodial agreements with third parties at the time of account opening and client assets are held by such custodians. AMMC's clients will receive account statements directly from their custodian at least quarterly that identify the amount of funds and each security in the account at the end of the period and set forth all transactions during that period. Clients should carefully review statements received from their custodian and should compare the account statements received from AMMC (if any) with those received from the client's custodian.

**Item 16.**  
**Investment Discretion**

AMMC primarily manages accounts on a discretionary basis. In such capacity, AMMC is authorized to direct execution of account transactions without transaction-by-transaction consultation with the client. AMMC generally has sole investment discretion in determining which securities to be bought or sold in a client account and in determining the amount of securities to be bought or sold in a client account. This investment discretion is granted to AMMC pursuant to the advisory agreement AMMC enters into with each client.

Clients may place limitations on AMMC's investment discretion during the client's initial meeting to discuss the client's investment objectives, in the investment management or collateral management agreement between AMMC and such client, and afterward by providing written notice to AMMC. Clients may also impose restrictions on investing in certain securities or certain types of securities.

**Item 17.**  
**Voting Client Securities**

Without exception, AMMC does not vote proxies on behalf of clients. All proxy materials received on behalf of a client account are sent directly to the client or a designated representative of the client, who is responsible for voting the proxy. AMMC personnel may answer client questions regarding proxy-voting matters in an effort to assist the client in determining how to vote the proxy. However, the final decision of how to vote the proxy rests with the client.

**Item 18.**  
**Financial Information**

AMMC does not require or solicit pre-payment of advisory fees from clients. AMMC has not been the subject of a bankruptcy petition during the past 10 years and is not aware of any financial condition that is reasonably likely to impair its ability to meet its contractual commitments to clients.