

Form ADV Part 2A - The Brochure

**Item 1 – Cover Page**

**Spectrum Asset Management, Inc.**

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This Brochure provides information about the qualifications and business practices of Spectrum Asset Management, Inc., hereinafter referred to as “Spectrum” or “Adviser”. 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.

Spectrum is a registered investment adviser. Registration of an Investment Adviser does not imply any level of skill or training.

If you have any questions about the contents of this Brochure, please contact us at (203) 322-0189 and/or [jhanczor@samipfd.com](mailto:jhanczor@samipfd.com).

Additional information about Spectrum is also available on the SEC’s website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).

## Item 2 – Material Changes

Material changes since last annual amendment on March 25, 2011: *Section 11: Cross Trades: See discussion in Section 11 below.*

On July 28, 2010, the United States Securities and Exchange Commission (“SEC”) published “Amendments to Form ADV” which amends the disclosure document that Spectrum, as a registered investment adviser, provides to clients under SEC Rules. This Brochure dated March 25, 2011 is a new document prepared according to the SEC’s new requirements and rules. As such, this document is materially different in structure and includes certain new information that our previous Brochure did not.

In the future, this section of the brochure will discuss only specific material changes that are made to the Brochure and will provide our clients with a summary of such changes within 120 days of the close of our fiscal year. We will also reference the date of the last annual update of our Brochure. We may provide other ongoing disclosure information about material changes as necessary.

We will further provide you with a new Brochure as necessary based on changes or new information, at any time, without charge.

Currently, our Brochure may be requested by contacting Joseph A. Hanczor, Chief Compliance Officer at (203)322-0189 or [jhanczor@samipfd.com](mailto:jhanczor@samipfd.com). Our Brochure is also available free of charge on our web site [www.samipfd.com](http://www.samipfd.com).

Additional information about Spectrum is also available on the SEC’s web site [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov). The SEC’s web site also provides information about any persons affiliated with Spectrum who are registered, or are required to be registered, as investment adviser representatives of Spectrum.

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#### **Item 4 – Advisory Business**

Spectrum was founded in 1987 and specializes in the management of preferred securities portfolios. Spectrum manages institutional portfolios for an international universe of corporate, insurance and endowment clients; mutual funds, including those distributed by Principal Funds Distributor, Inc.; and preferred securities separately managed account solutions distributed by Principal Global Investors, LLC ("PGI"). Spectrum is one of the largest investment advisers in the world specializing in the preferred securities market with \$11.3 billion in assets under management as of 12/31/10. Of this amount, discretionary assets totaled \$10.4 billion and non-discretionary assets totaled \$900 million.

Spectrum was acquired in 2001 by PGI, the asset management arm of The Principal Financial Group® ("PFG"). PGI is directly owned by Principal Life Insurance Company, an affiliate of PFG. The Principal Financial Group was established in 1879 and became a public company listed on the New York Stock Exchange in 2001 under the ticker symbol PFG.

Spectrum is a dually registered firm. It is an investment adviser registered with the SEC and a broker/dealer member firm of the Financial Industry Regulatory Authority ("FINRA"). Spectrum is also a member of the National Futures Association and registered with the Commodity Futures Trading Commission ("CFTC").

Spectrum is an investment manager for the separately managed account/wrap fee programs ("wrap programs") listed in Schedule D, Section 5.I(2) of Spectrum's Form ADV Part 1, including wrap programs created and/or serviced by the financial institutions listed in Schedule D, Section 5.I(2) of Spectrum's Form ADV Part 1 which are "private-labeled" by third-parties. (See Section 5 below for a description of these services).

#### **Item 5 – Fees and Compensation**

Spectrum provides discretionary investment advisory services to institutional clients generally investing at least \$25,000,000 for discretionary individually managed accounts. Spectrum offers such services for an advisory fee calculated as a percentage of assets under management as described below. Spectrum's FINRA member affiliated broker/dealer charges commissions for certain securities transactions according to its commission schedule, a copy of which is available upon request. Item 12 herein further describes the factors that Spectrum considers in selecting or recommending broker/dealers for client transactions and determining the reasonableness of their commissions. Clients may also pay custodial fees to the custodian of

their choosing, exchange fees and other charges. Spectrum does not reduce its advisory fees to offset commissions.

A client wanting to terminate an investment advisory contract before its expiration date generally may do so by giving 30 days written notice, unless otherwise specified in the negotiated contract.

The investment advisory fees charged by Spectrum for each of its products are as follows:

Individually Managed Accounts: Fees are generally charged based on the average daily value of client assets under management, payable quarterly in arrears. Fees are negotiable and may vary from those shown below to reflect circumstances that may apply to a specific client or account. Accounts with special investment guidelines or other special circumstances or requirements may be charged differently based on the services rendered. Some existing clients may pay different fees that are not available to new clients. Clients may withdraw funds from management at any time, upon delivery of notice to Spectrum. Clients are asked to provide 30 days' advance notice of a withdrawal so that liquidation may be effected efficiently. Accounts initiated or terminated during a calendar quarter will be charged a prorated fee. Upon termination of any account, any paid, unearned fee will be promptly refunded and any earned, unpaid fee will be due and payable.

Spectrum's current basic fee schedule for individually managed accounts is as follows:

Account Value

| <u>(\$ in millions)</u> | <u>Annual Fee Rate</u> |
|-------------------------|------------------------|
| Initial \$50 million    | 0.50%                  |
| Next \$200 million      | 0.45%                  |
| Next \$750 million      | 0.40%                  |
| Over \$1 billion        | 0.35%                  |

Investment Companies: Spectrum acts as a sub-adviser to U.S. registered investment companies ("registered funds"). The fees and other contractual arrangements for each of these registered funds are described in the registered fund's registration statement filed with the Securities and Exchange Commission.

Wrap Programs: Spectrum is an investment manager for the separately managed account/wrap fee programs ("wrap programs") listed in Schedule D, Section 5.I(2) of Spectrum's Form ADV Part 1, including wrap programs created and/or serviced by the financial institutions listed in Schedule D, Section 5.I(2) of Spectrum's Form ADV Part 1 which are "private-labeled" by third-parties. In a typical wrap program, each client enters into an agreement with the sponsor of the wrap program, and each investment manager available in the program maintains a sub-advisory agreement with the sponsor of the wrap program or other service providers involved in the program. Clients typically pay a single all-inclusive "wrap" fee to the wrap program sponsor that covers, among other things, advisory, brokerage execution and custodial services.

Spectrum may handle the placement of trades for some wrap fee programs and/or may provide model portfolio recommendations to the program sponsor. Model portfolio recommendations are provided to the program sponsor at the close of each business day. The delivery of changes in model portfolio recommendations typically occurs after similar changes have been implemented, or may be in the process of implementation, across institutional accounts managed by Spectrum. It should be expected therefore that accounts receiving recommendations that are implemented following Spectrum's institutional accounts will have different performance than the institutional accounts because of favorable or unfavorable market changes during the ensuing period. For trade rotation purposes, "model only" wrapped fee program sponsors are accorded rotation slots on a similar basis as the slots accorded to other wrapped fee program sponsors, the only difference being that the model portfolio is communicated to the "model only" wrapped fee program sponsors and the trade orders based on the model portfolio are communicated to the other wrapped fee program sponsors.

Spectrum receives fees paid by wrap program sponsors that are generally a percentage range per annum of the market value of the accounts in the program. Some wrap programs provide for the wrap fee (including the portfolio management portion payable to Spectrum out of that wrap fee) to be paid by the client before the services are rendered to the client by Spectrum, while some wrap programs provide for the wrap fee to be paid in arrears by the client after Spectrum provides services for the period covered by the fee.

Spectrum, in agreement with the wrap sponsor, may step-out trades for the benefit of client accounts in those circumstances when, for example, the sponsor and Spectrum believe that Spectrum may be able to achieve better execution, e.g. for larger block trades. In the event Spectrum steps-out trades, Spectrum, as a registered broker-dealer, may facilitate the purchase and sale of preferred securities in accordance with its policies and procedures. (See Item 12). Spectrum does not charge commissions for step-out trades. In certain programs, the fees and

services may be unbundled and Spectrum may enter into an investment advisory agreement directly with the clients. Spectrum's fees for portfolio management of wrap fee programs are asset based and generally range between 0.20% and 0.35% annually. The minimum account size may vary by program, but is typically \$100,000 – \$500,000. Spectrum provides discretionary and non-discretionary investment management services to the wrap programs. Various other services, including performance review and reporting, may be performed by the wrap program sponsor and/or other service providers.

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

Spectrum does not charge any performance-based fees (fees based on a share of capital gains on or capital appreciation of the assets of a client).

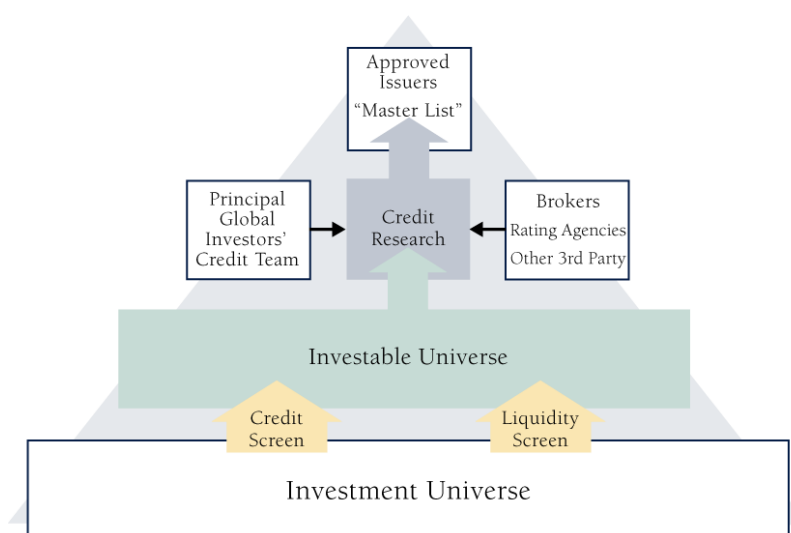
#### **Item 7 – Types of Clients**

Spectrum provides portfolio management services to registered mutual funds, private investment funds, foreign funds such as UCITs, sponsors of wrap account programs, corporate pension and profit-sharing plans, charitable institutions, foundations, endowments, and other U.S. and international institutions. Generally the minimum account size for opening and maintaining an account is \$25 million.

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

Introduction: Spectrum's methods of analysis and investment strategies reflect a commitment to fundamental research. The integrated global process is team-oriented. Spectrum's Credit and Research Team draws upon the input of the substantial research resources of Principal Global Investors. A significant amount of our time and resources is focused on gathering and analyzing the information necessary to our bottom-up process. Our methods emphasize traditional financial analysis within the context of broad industry and economic trends.

## Issuer Analysis



As of December 31, 2010, the preferred securities market was comprised of approximately \$468 billion in outstanding par value paper. Spectrum screens this market for quality and liquidity according to the following criteria:

**Quality** - Spectrum's investment universe is comprised of preferred securities that are issued by companies with senior unsecured debt that is rated investment grade by at least two of the following rating agencies at time of purchase: Moody's, S&P, Fitch.

**Liquidity** – There must be at least \$100 million of issuance outstanding. Liquidity is taken into account at the time of any potential investment.

**Credit Research Process:** Responsibility for the formation of macroeconomic projections rests with Principal Global Investors' Economic Committee, led by Chief Global Economist Bob Baur, Ph.D. The Economic Committee forecasts and analyzes economic and market changes, and examines factors such as GDP growth, interest rates, employment rates, inflation rates, as well as broad-market risk relative to valuations. This information is shared across all of the asset management groups of PGI in order to form a common framework for making investment decisions.

Spectrum focuses on individual company analysis within this economic framework, including a company's financial and operational profile, especially its cash flow, liquidity, leverage, profitability, capital expenditure, management, growth strategies and long-term competitiveness.



Inputs: Spectrum derives an overwhelming majority of key process inputs and investment ideas from internally derived fundamental and quantitative research. Spectrum's credit analysts are dedicated to providing in-depth coverage of preferred security issuers, as well as broad industry and sector insight. The work of the core group of over 20 credit analysts of PGI makes a unique contribution to Spectrum's preferred securities research by providing in-depth coverage of over 800 major bond issues. The credit analysis of issuers by PGI is made available to the Spectrum credit analysts via formal conference calls, ongoing informal dialogue and through an internally developed, real time, bond information tracking system.

Spectrum's investment process also draws from multiple third party information sources. Spectrum obtains research reports about specific companies, industry analyses and market updates from a variety of brokerage houses. Spectrum subscribes to Moody's Investors Services and Standard & Poor's, among others, and Spectrum's credit analysts maintain an open dialogue directly with the analysts at these agencies. Spectrum also has access to proprietary information services such as Bloomberg and Bondhub.

Outputs: Spectrum's Credit and Research Team produces credit opinions on each issuer. These reports capture the analyst's outlook on the company: company profile, recent developments, positive and negative factors, and a recommendation (buy, hold, or sell).

The team formally presents any changes in their opinions at an Investment Committee meeting each week, which is attended by the entire portfolio management group. The team works off a "master list" of approved credits. Any change to the "master list" is discussed with the entire investment team. The weekly meeting also provides a forum for the whole team to discuss the sector and economic outlook and evolving credit market conditions. Discussion can typically result in analysts being asked to undertake further research to be presented at the next meeting. Being a small, centralized team, the analysts frequently talk directly to the portfolio managers about credit concerns or opportunities outside of the weekly formal meetings.

Security Analysis Process: Once analysis of the credit quality of an issuer is complete, Spectrum analyzes the various preferred securities outstanding. The focus of Spectrum's security analysis is to assess the relative value among various preferred securities on the basis of the following key features: call protection, subordination, option adjusted spread and security credit rating.

Spectrum compares yields and option adjusted spreads of a particular issue relative to:

- The issuer's senior debt;
- The issuer's preferred securities of a different trading market sector: (\$25 par issues versus \$1,000 par issues);
- The issuer's preferred securities of the same type (\$25 par issues vs. other \$25 par issues, or \$1,000 par versus other \$1,000 par issues); and
- Other preferred securities

Spectrum has built a system that sources \$25 par security prices from FINRA brokers and NYSE floor specialists and combines them with Bloomberg prices for \$1,000 par preferred securities and senior debt. This tool allows Spectrum to compare the spreads described above on a real time basis. It allows Spectrum not only to highlight the most attractive relative securities but to also identify market inefficiencies or trading opportunities.

Security Selection: Key drivers in the security selection process are credit strength and yield. For a security to be considered for investment, the credit status of the issuer must be improving or stable. The security yield must be enticing, given the credit rating and credit trend relative to other preferred securities. In addition, the preferred issue is analyzed relative to the real or theoretical level of the same issuer's corporate debt. Features such as call protection, subordination and option-adjusted spreads are assessed to ensure a given issue provides a yield premium to justify its inclusion in the portfolio.

Portfolio Construction: The portfolio construction process is primarily "bottom-up" and focuses on the credit quality of the issuer and then the relative value of the security. The senior management of Spectrum and the investment team meet weekly to review analyst reports regarding issuers, industry and sector trends as well as general market and economic conditions. Direction regarding sector allocation, hedging needs (when applicable), guideline compliance and credit quality for specific issuers are discussed and set weekly or more frequently as warranted. The portfolio managers are then responsible for portfolio construction and security selection within the established guidelines, including specific client requirements.

Portfolios are constructed with an emphasis on preferred securities although corporate, agency and U.S. Treasury bonds may be used depending on spreads and trading opportunities. Within the preferred securities market, initial emphasis is on the issuers and industries with a positive

and/or improving outlook as indicated by our sector and industry specialist analysts, as well as the broad economic outlook provided by PGI.

Sell decisions can be either a function of a credit development or recognition that the preferred yield has become "rich" relative to the yield of the senior debt. Diversification is a primary consideration, and while most portfolio guidelines specify 5.0% as the maximum position for an individual credit, most holdings are in the 0.5-3.0% range. A typical institutional portfolio generally contains over 50 distinct issuers across a minimum of six industries.

The process is designed to achieve optimal preferred security model portfolios. This involves formally establishing target duration, industry allocation, credit quality and liquidity parameters relative to predetermined benchmarks and risk management guidelines. In turn, the portfolio managers are charged with final responsibility for constructing individualized portfolios that capture desired model portfolio characteristics while strictly adhering to specified client policy guidelines and preferences.

Risks: The main risks that our clients are exposed to are: risk of loss of principal and risk of failing to achieve a targeted amount of income. Investing in preferred securities involves risk of loss that clients should be prepared to bear. Past performance does not necessarily predict future results.

Risk management is embedded in our investment process. Our portfolio management team has many risk management systems/tools at its disposal within the portfolio construction process. While all portfolios within a strategy are managed similarly, the portfolio managers ensure that client-specified guidelines are incorporated into each portfolio. All team members monitor the portfolios on an ongoing basis and they continue to work together to assess any new risks in current holdings or new buy/sell ideas based on portfolio needs or changes that occur in the marketplace or within individual companies. Furthermore, our risk management tools allow for senior management to view portfolio positioning at any time.

Specifically, Spectrum endeavors to manage risks to its clients' portfolios through the following portfolio risk management process, among others:

Credit Risk: Credit risk is primarily reduced through a focus on high quality, investment grade issuers and diversification of the portfolio. Typically, no single issue will represent more than 3% of the portfolio. In addition to internally generated analyses and the analysis available through Principal Global Investors, LLC, Spectrum has access to the services of Standard & Poor's and Moody's Investors Services, as well as industry analysts at major investment banks. Spectrum proactively manages credit risk by diligently monitoring trends for potential improvement or deterioration in credit quality.

Interest Rate Risk: Interest rate risk is primarily mitigated, when appropriate, through duration management. Duration may be hedged to a specified index. Presently, a 50% Merrill Lynch Preferred Stock Fixed Rate Index and 50% Barclays Capital Securities US Tier 1 Index is used with Spectrum's Intermediate Duration Total Return strategy. An internal risk measurement model assigns a risk value (or hedge ratio) to each security in the portfolio based on its maturity, call features, current market price, and so forth. This analysis is then applied to the portfolio as a whole to determine the portfolio's sensitivity to changes in interest rates.

Spread Risk: Spread risk refers to the risk that the spreads on all corporate debt securities and on preferred securities in particular, will widen relative to U.S. Treasury bonds. While there is no economically efficient way to eliminate this risk, the portfolio managers are cognizant of the risk when constructing the portfolio.

Liquidity Risk: The preferred securities market is often less liquid than the Treasury, agency, corporate and asset backed markets. Our minimum liquidity requirements serve to mitigate this risk. Securities are initially screened for minimum size of \$100 million issuance outstanding. In addition, Spectrum is an experienced and active participant in the preferred securities market. Spectrum maintains a presence on the floor of the NYSE exchange, enabling Spectrum to add value via trading as an agent in preferred securities.

Trading Risk: There can be risks to a portfolio when there is frequent trading of securities. Spectrum does not engage in what we believe to be frequent trading or portfolio turnover. On average, our portfolio turnover is currently approximately 25% per year.

Portfolio Guideline Risk: This risk is monitored on a daily basis. All investment guidelines and other account rules are contained in our proprietary allocation model. All prospective trades are run through the model and checked against investment guidelines prior to execution. Spectrum uses Charles River Compliance for end-of-day compliance. Charles River Compliance provides a centralized and organized view of investment compliance operations.

## **Item 9 – Disciplinary Information**

Spectrum, as a registered investment adviser, is required to disclose all material facts regarding any legal or disciplinary events that would be material to the evaluation of Spectrum or the integrity of Spectrum's management. Spectrum has no items that are reportable under this item.

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

Spectrum is a dually registered firm. It is an investment adviser registered with the SEC and a broker/dealer FINRA member firm. (See the discussion in Section 12 of the conflicts of interest that arise from this dually registered structure). Spectrum is also a member of the National Futures Association and registered with the Commodity Futures Trading Commission.

Spectrum was acquired by Principal Global Investors (“PGI”) in 2001. PGI is the asset management arm of The Principal Financial Group®. The Principal Financial Group was established in 1879 and became a public company listed on the New York Stock Exchange in 2001 under the ticker symbol PFG.

Principal Global Investors includes the asset management operations of the following subsidiaries of The Principal: Principal Global Investors, LLC; Principal Real Estate Investors, LLC; Spectrum Asset Management, Inc.; Post Advisory Group, LLC; Columbus Circle Investors; Edge Asset Management, Inc.; Morley Financial Services Inc.; Principal Global Investors (Europe) Limited; Principal Global Investors (Singapore) Ltd.; Principal Global Investors (Australia) Ltd.; Principal Global Investors (Japan) Ltd.; Principal Global Investors (Hong Kong) Ltd.; CIMB-Principal Islamic Asset Management Sdn. Bhd.; and the majority owned affiliates of Principal International, Inc. Assets under management include assets managed by investment professionals of Principal Global Investors under dual employee arrangements with other subsidiaries of The Principal. (“The Principal Financial Group” and “The Principal” are registered trademarks of Principal Financial Services, Inc., a member of the Principal Financial Group).

PGI is an investment advisor registered with the SEC. PGI provides Spectrum various resources and services, including but not limited to, compliance, internal audit, human resources, and sales and marketing. Spectrum has common officers and/or directors with PGI.

Spectrum is under common control with Princor Financial Services Corporation (“Princor”), a broker-dealer registered with the SEC and a FINRA member firm that markets a variety of mutual funds, unit investment trusts and limited partnerships. Princor is the principal underwriter and distributor of institutional shares of a family of mutual funds organized by Principal Life Insurance Company (“Principal Life”). Spectrum currently does not conduct any brokerage business with Princor. Spectrum personnel are not eligible to receive compensation for any sales of securities made to Princor clients or prospective clients.

Spectrum is under common control with Principal Funds Distributor, Inc. ("PFD"), a broker-dealer registered with the SEC and a FINRA member firm. PFD is the principal underwriter and distributor of retail and institutional shares of a family of mutual funds organized by Principal Life. Spectrum currently does not conduct any brokerage business with PFD.

Spectrum is under common control with Principal Life, a life insurance company licensed in all 50 states and the District of Columbia.

#### **Item 11 – Code of Ethics, Participation in Client Transactions and Personal Trading**

Code of Ethics: Pursuant to Rule 204A-1 under the Investment Advisers Act of 1940, Spectrum has adopted a Code of Ethics (the "Code"), which sets forth standards of business and personal conduct for directors, officers and employees of Spectrum. The Code addresses conflicts that arise from personal trading by Spectrum's employees, all of whom are deemed to be Access Persons. The Code is predicated on the principle that directors, officers and employees of Spectrum will adhere to the highest ethical standards and fiduciary principles, and must:

- place client interests first;
- engage in personal securities transactions consistent with the Code and avoid any actual or potential conflict of interest or any abuse of their position of trust and responsibility;
- not take inappropriate advantage of their positions;
- keep security holdings and financial circumstances of clients confidential; and
- adhere to the principle that independence in the investment decision-making process is paramount.

Spectrum maintains high ethical standards and requires employees to conduct themselves in an appropriate manner, as more fully described in the Code. All Access Persons of Spectrum receive a copy of the Code at the beginning of their employment by or association with Spectrum and certify that they understand and will abide by the Code. Access Persons are also provided a copy of the Code whenever material amendments are made and they are required to certify, upon such amendment as well as on an annual basis, that they understand and have complied with the Code.

The Code requires that Access Persons report any violations of the Code promptly to Spectrum's Chief Compliance Officer ("CCO") or compliance representative. Material violations of the Code will be reported to Spectrum's Board of Directors.

As part of the Code, Spectrum has adopted personal securities transaction and reporting policies. Each Access Person is required to report to Spectrum transactions in reportable securities in personal accounts, including arranging for duplicate transaction confirmations to be delivered to Spectrum as well as initial, monthly, quarterly and annual reports.

Access Persons are prohibited from purchasing individual preferred securities. Therefore, Spectrum employees are prohibited from buying the type of securities that are purchased for client portfolios. Also, Spectrum employees may not purchase common stock of Spectrum clients. Access Persons also are prohibited from acquiring any securities in an initial public offering. Access Persons may not, directly or indirectly, acquire any security in a private placement transaction without obtaining prior approval of the Chief Compliance Officer of Spectrum and must disclose the investment when they play a part in consideration of an investment in the issuer for a client's account; the investment decision must be reviewed by investment personnel with no personal interest in the issuer.

Access Persons are discouraged from frequent personal trading. Access Persons who purchase shares of mutual funds advised or sub-advised by Spectrum are instructed that they should retain such shares for a minimum of 30 days, and redemptions or exchanges of such shares within 30 days of purchase must be pre-cleared by the CCO, who will grant approval only under special circumstances. Additional requirements apply to transactions in investment products of Spectrum's parent company or stock of such company.

Access Persons generally are prohibited from serving as board members of publicly traded companies, and exceptions will be made by the CEO and CCO only when it does not conflict with the interest of Spectrum or its clients. Access Persons may not undertake other business activities outside of Spectrum that may cause, or appear to cause, any conflict of interest, and Access Persons must disclose all directorships in businesses and other interests in businesses where they either have a controlling or influencing position or receive monetary compensation for their involvement in that business.

In accordance with Section 204-A of the Investment Advisers Act of 1940, Spectrum also maintains and enforces written policies reasonably designed to prevent the misuse of material non-public information by the firm or any person associated with the firm.

Spectrum recommends the purchase of shares of affiliated mutual funds for which Spectrum and its affiliates provide advisory services. Spectrum may recommend securities to unaffiliated clients that are currently held in affiliated client portfolios or personally held by Spectrum's employees. Spectrum does not buy or sell for itself securities that it also recommends to clients.

Clients of Spectrum can obtain a copy of the Code of Ethics by contacting Joseph Hanczor, Chief Compliance Officer at (203) 322-0189, or [jhanczor@samipfd.com](mailto:jhanczor@samipfd.com).

Cross Trades: Spectrum may occasionally conduct cross trades for client accounts. A cross trade occurs when Spectrum purchases and sells a particular security between two or more accounts under Spectrum's management. Spectrum utilizes "cross" trades when it deems the practice to be advantageous for each participant. Spectrum has a conflict of interest when effecting a cross trade because Spectrum must take into account the interests of both the selling account and the buying account in the same transaction. This conflict of interest may be greater in situations where one of the clients involved in the transaction pays Spectrum a higher management fee. Additionally, clients might have received a more favorable price if the transaction were executed in the open market rather than having the security bought or sold through a cross trade.

To address these concerns, Spectrum's procedures require that cross trades be effected at the independent current market price of the security as determined by reference to independent third party sources. Under Spectrum's policy, cross trades are currently not permitted in accounts that are subject to the Employee Retirement Income Security Act ("ERISA"). Spectrum does not receive brokerage commissions when conducting cross trades for client accounts. Spectrum will seek to ensure that the terms of the transactions, including the consideration to be paid or received, are fair and reasonable, and the transactions are executed in a manner that is in the best interest of the clients involved in the cross trade.

## **Item 12 – Brokerage Practices**

To the extent permissible under applicable law, Spectrum's affiliated broker/dealer will generally effect all securities transactions on behalf of its clients, including securities traded on an exchange or in the over-the-counter ("OTC") market, unless a client directs the execution of its transactions to another broker-dealer. Spectrum's brokerage services include placing and



monitoring buy and sell orders on the floor of the exchange or with broker-dealers in the OTC market, and monitoring the markets. Spectrum obtains client consent to effect all brokerage transactions through Spectrum, consistent with regulatory requirements.

In addition to the advisory fees Spectrum receives, Spectrum generally receives a brokerage commission, net of commission costs, in accordance with the firm's commission schedule which is provided to all clients. Depending upon the size of a client account, the volume of securities traded for the account, and other factors, the commissions Spectrum charges may vary by client, and some clients may pay a lower or no commission. Spectrum believes that the brokerage commissions and fees charged by Spectrum for its services are commercially reasonable and consistent with its best execution responsibilities.

In addition, a client may direct Spectrum to effect futures transactions on the client's behalf as a commodity trading advisor. Such trades would be cleared through NEWEDGE and clients would pay commissions and charges for such transactions in accordance with Spectrum's commission schedule.

Conflicts of Interest: Spectrum has a conflict of interest in directing clients' brokerage to its affiliated FINRA member broker/dealer and generally executing its clients' transactions because the commissions described above are an incentive for Spectrum to effect the transactions rather than direct trades to other broker/dealers. Spectrum addresses this conflict of interest as described in this section.

Also, Spectrum recommends, and buys and sells securities for accounts of its related persons; and Spectrum may buy or sell for clients securities in which Spectrum's related persons have a financial interest or position. Spectrum addresses this potential conflict of interest by, among things, the trade allocation practices described herein.

Selection of Brokers or Dealers: As stated above, Spectrum generally executes all transactions on behalf of its clients with client consent and has the authority to determine, without client consultation or consent, the clearing broker through which securities or other instruments are cleared and the commission rates or dealer spreads at which transactions are effected.

Certain clients limit Spectrum's discretionary authority over their accounts and instruct Spectrum which brokers and dealers to use or not to use to execute securities transactions. These clients may pay different transaction costs (including commissions) because Spectrum does not negotiate commissions. They also may obtain different prices for securities than if Spectrum executed the client's trades because Spectrum may not be able to aggregate these transactions with trades for its other clients. In addition, guidelines employed by Spectrum to

distribute investment opportunities fairly among all clients may occasionally limit these clients' ability to participate in a particular investment.

Because Spectrum does not negotiate brokerage commissions on behalf of its advisory clients, clients may pay different commissions than if Spectrum negotiated commissions with a third party. The total commissions for transactions Spectrum effects on an exchange may be higher or lower than that which might have been charged by other broker/dealers for the same transactions. Also, the cost of an OTC trade effected by Spectrum acting as broker-dealer may be higher or lower than if Spectrum, in its capacity as investment adviser, caused its client to transact directly with a dealer in the OTC market.

All clients other than those discussed above consent to the use of Spectrum to execute all of their transactions as broker/dealer. Spectrum believes that this provides significant advantages. These advantages include expertise in trading preferred securities, client anonymity, direct access to the floor of the NYSE, minimizing the chance of error otherwise associated with a large number of individual purchases and delivery instructions, a greater ability to purchase and allocate blocks of preferred securities to Spectrum separate accounts, and the potential for price improvements on securities transactions for the benefit of clients. Additionally, Spectrum, acting as a broker-dealer, is able to aggregate all or a portion of a block of client trades before selling them to a dealer, which may minimize the opportunity for third party errors, increase overall speed and efficiency, and result in price improvements. Spectrum cannot quantify the value of the advantages described above.

It is possible that a client could obtain better execution of transactions in preferred securities by using another broker/dealer. Spectrum cannot conclusively demonstrate whether the commissions charged by other broker/dealers are less than, equal to or exceed the commissions that Spectrum charges on the transactions. Additionally, determining best execution for preferred securities is difficult, particularly preferred securities traded in the OTC market, due to the limited number of investment advisers specializing in preferred securities, the structure of the preferred securities market, and the lack of timely consolidated tape reporting in parts of the OTC market. Thus, it is possible that Spectrum, acting as broker, will not achieve best execution in all cases.

In the event that capital securities trade in odd lots, a client account may not receive the best execution possible when trading in odd lots compared to the execution they would receive trading in round lots.

Aggregation and Allocation: If Spectrum believes that the purchase or sale of a security is in the best interest of more than one client, it may (but is not obligated to) aggregate the orders

to be sold or purchased to seek favorable execution or lower brokerage commissions, to the extent permitted by applicable law and regulation. Aggregation of orders under this circumstance should, on average, decrease the costs of execution. Each client that participates in an aggregated transaction will receive the average share price calculated for all trades. Transaction costs may vary by client according to each client's level of participation in the transaction and its negotiated commission rate.

Allocations will be designed to ensure that over time no account (or group of accounts) will be systematically favored over any other account (or group of accounts). Allocation methodologies may include pro rata based on account size, percentage of account size, and random allocation.

The accounts aggregated may include registered funds advised by Spectrum, as well as accounts of Spectrum's related persons. Spectrum may not be able to aggregate securities transactions for clients who direct Spectrum to use another broker-dealer. Such clients would not benefit from any improved execution or lower commissions that may be available for aggregated transactions.

For purchases, available cash or the lowest issue/issuer/sector concentration may also be factors used to determine allocations. For sales, the lowest cash percentage, the highest concentration in the issue/issuer/sector, or the current need for cash may also be factors used to determine allocations. In addition, account specific investment restrictions may affect allocation methodology.

Soft Dollars: Spectrum does not maintain any formal "soft dollar" arrangements. However, various broker-dealers provide Spectrum with proprietary research and other products and services. Spectrum believes that it would obtain this research and other products and services regardless of the amount of business that it directs to such firms throughout the year, and, therefore, Spectrum does not believe it is "paying up" for the proprietary research and other products and services offered by the various broker/dealers utilized by Spectrum.

Choice of Futures Commission Merchant: Spectrum may execute futures transactions on behalf of its clients, with client consent. In such cases, Spectrum has the authority to determine, without further client consultation or consent, the futures trader through which those futures transactions are cleared, and the rates or spreads at which the transactions are effected. A client may pay lower commissions on futures transactions by using another futures commission merchant.

Cross Trades: See discussion in Section 11 above.

### **Item 13 – Review of Accounts**

Senior members of Spectrum's Investment Committee, typically the firm's Chief Investment Officer, Portfolio Managers, President/Chief Executive Officer and/or Chief Operating Officer generally review each client account each business day. In addition, Spectrum has weekly investment meetings attended by the Investment Committee to review client accounts.

A complete set of accounting and performance reports generally is provided to each client on a monthly basis.

Special reports are furnished to the Board of Directors/Trustees of registered funds, to assist in compliance with the Investment Company Act of 1940 and as otherwise requested.

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

Spectrum may pay fees to persons, including affiliates of Spectrum, who refer advisory clients to Spectrum. In addition, Spectrum may pay a portion of its advisory fees to Spectrum affiliates for referrals of advisory clients. Any compensation paid for referrals to Spectrum of advisory clients will be done in compliance with applicable law and any other applicable obligations of the persons receiving such compensation.

### **Item 15 – Custody**

Spectrum does not maintain custody of client assets. Our clients select their own custodians. Clients should receive at least quarterly statements from the broker/dealer, bank or other qualified custodian that holds and maintains clients' investment assets. Spectrum **urges** our clients to carefully review such statements and compare such official custodial records to the account statements that we may provide. Our statements may vary from custodial statements based on accounting procedures, reporting dates, or valuation methodologies of certain securities.

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

Spectrum usually receives discretionary authority from clients at the outset of an advisory relationship to select the identity and amount of securities to be bought or sold, the broker/dealer to be used to execute trades (typically Spectrum's affiliated broker/dealer) and the commission rates to be paid. This discretionary authority is documented through an investment management agreement and the accompanying investment guidelines. Clients are free to restrict the discretionary authority they grant to Spectrum. In all cases such discretion is exercised in a manner consistent with the stated investment objectives, limitations and restrictions for the particular client account. Investment guidelines and restrictions must be provided to Spectrum in writing.

For registered investment companies, Spectrum's authority to trade securities may also be limited by certain federal securities and tax laws that require diversification of investments and favor the holding of investments once made.

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

Spectrum has adopted a Policy on Proxy Voting for Investment Advisory Clients (the "Voting Policy"), which provides that Spectrum aims to ensure that, when delegated proxy voting authority by a client, Spectrum acts (1) solely in the interest of the client in providing for ultimate long-term stockholder value, and (2) without undue influence from individuals or groups who may have an economic interest in the outcome of a proxy vote. Spectrum relies on the custodian bank to deliver proxies to Spectrum for voting.

Spectrum has selected Risk Metrics Group, formerly Institutional Shareholder Services, Inc. ("RMG") to assist with Spectrum's proxy voting responsibilities. Spectrum generally follows RMG's standard proxy voting guidelines, which embody the positions and factors Spectrum considers important in casting proxy votes. In connection with each proxy vote, RMG prepares a written analysis and recommendation based on its guidelines. In order to avoid any conflict of interest for RMG, the CCO will require RMG to deliver additional information or certify that RMG has adopted policies and procedures to detect and mitigate such conflicts of interest in issuing voting recommendations. Spectrum also may obtain voting recommendations from two proxy voting services as an additional check on the independence of RMG's voting recommendations.

Spectrum may, on any particular proxy vote, diverge from RMG's guidelines or recommendations. In such a case, the Voting Policy requires: (i) the requesting party to document the reason for the request; (ii) the approval of the Chief Investment Officer; (iii)

notification to appropriate compliance personnel; (iv) a determination that the decision is not influenced by any conflict of interest; and (v) a written record of the process.

When Spectrum determines not to follow RMG's guidelines or recommendations, Spectrum classifies proxy voting issues into three broad categories: (1) Routine Administrative Items; (2) Special Interest Issues; and (3) Issues having the Potential for Significant Economic Impact, and casts proxy votes in accordance with the following philosophy and decision guidelines developed for that category in the Voting Policy:

- Routine Administrative Items – Spectrum is willing to defer to management on matters of a routine administrative nature. Examples of issues on which Spectrum will normally defer to management's recommendation include selection of auditors, increasing the authorized number of common shares and the election of unopposed directors.
- Special Interest Issues – In general, Spectrum will abstain from voting on shareholder social, political and environmental proposals because their long-term impact on share value cannot be calculated with any reasonable degree of confidence.
- Issues Having the Potential for Significant Economic Impact – Spectrum is not willing to defer to management on proposals which have the potential for major economic impact on the corporation and the value of its shares and believes such issues should be carefully analyzed and decided by shareholders. Examples of such issues are classification of board of directors, cumulative voting and supermajority provisions, defensive strategies (e.g., greenmail prevention), business combinations, restructurings and executive and director compensation.

Conflicts of Interest: There may be a material conflict of interest when Spectrum votes, on behalf of a client, a proxy that is solicited by an affiliated person of Spectrum or another Spectrum client. To avoid such conflicts, Spectrum has established procedures under its Voting Policy to seek to ensure that voting decisions are based on a client's best interests and are not the product of a material conflict. In addition to employee monitoring for potential conflicts, the CCO reviews Spectrum's and its affiliates' material business relationships and personal and familial relationships of senior personnel of Spectrum and its affiliates to monitor for conflicts of interest. If a conflict of interest is identified, Spectrum considers both financial and non-financial materiality to determine if a conflict of interest is material. If a material conflict of

interest is found to exist, the CCO discloses the conflict to affected clients and obtains consent from each client as to the manner in which Spectrum proposes to vote.

Spectrum clients can obtain a copy of the Voting Policy or information on how Spectrum voted their proxies by calling Spectrum's Compliance Department at (203) 322-0189.

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

Registered investment advisers are required to provide clients with certain financial information or disclosures about their financial condition. Spectrum has no financial commitment that impairs its ability to meet contractual and fiduciary commitments to clients, and has not been the subject of a bankruptcy proceeding.

Form ADV Part 2B-  
Brochure Supplement to Form ADV Part 2A

## **Spectrum Asset Management, Inc.**

2 High Ridge Park

Stamford, CT 06905

(203) 322-0189

[www.samipfd.com](http://www.samipfd.com)

March 25, 2011

### **Supervised Persons**

Mark Lieb

L. Phillip Jacoby

Matthew Byer

Fernando Diaz

Roberto Giangregorio

Manu Krishnan

This brochure supplement provides information about the above-referenced individuals (collectively, the “Supervised Persons”) which supplements the brochure of Spectrum Asset Management, Inc. (“Spectrum”). You should have received a copy of that brochure. Please contact Joseph Hanczor, Chief Compliance Officer at (203) 322-0189 if you did not receive Spectrum’s brochure or if you have any questions about the content of this supplement.

Additional information about the Supervised Persons is available on the SEC’s website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).



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

Listed below is the name, year of birth, formal education after high school, and business background for the preceding five years for each Supervised Person.

### **Mark Lieb:**

- 1950
- MBA Finance, University of Hartford
- BA Economics, Central Connecticut State College
- President and Chief Executive Officer of Spectrum- 2010 to present
- Executive Director/Senior Officer of Spectrum- 1987 to 2010
- Founder of Spectrum 1987

### **L. Philip Jacoby:**

- 1959
- BSBA Finance, Boston University School of Management
- Executive Director and Chief Investment Officer of Spectrum- 2010 to present
- Senior Portfolio Manager/Senior Officer of Spectrum- 1995 to 2010

### **Matthew Byer:**

- 1967
- BS Mathematics and JD Law, University of Illinois at Urbana-Champaign
- Executive Director and Chief Operating Officer of Spectrum- 2010 to present
- Senior Vice President of Spectrum- 2007 to 2010
- United Sports Equities President & Chief Operating Officer- 2006 to 2007
- A.G. Edwards Vice President and Director – Investment Banking- 1998 to 2006

### **Fernando Diaz:**

- 1961
- Aviation High School
- Vice President and Portfolio Manager of Spectrum- 2000 to present

### **Roberto Giangregorio:**

- 1968
- MBA Finance with Distinction Cornell University
- MS Mechanical Engineering University of Wisconsin-Madison
- BS Mechanical Engineering S.U.N.Y. at Stony Brook

- Vice President and Portfolio Manager of Spectrum- 2003 to present

Manu Krishnan:

- 1976
- MBA Finance Cornell University
- MS Mechanical Engineering University of Delaware
- BS Mechanical Engineering College of Engineering, Osmania University, India
- Vice President and Portfolio Manager of Spectrum- 2004 to present

**Item 3 – Disciplinary Information**

The Supervised Persons have not been involved in any legal events or subjected to any disciplinary actions which are material to Spectrum’s clients or prospective clients.

**Item 4 – Other Business Activities**

No Supervised Person is actively engaged in any other investment-related businesses or other occupations, except that all supervised persons are registered representatives of Spectrum’s affiliated FINRA member broker/dealer and associated persons with Spectrum which is an Introducing Broker and Commodity Trading Adviser member of the National Futures Association and registered with the Commodity Futures Trading Commission.

**Item 5 – Additional Compensation**

The Supervised Persons do not receive from Spectrum, its clients or third parties, any special economic benefits, including sales awards, commissions, prizes or bonuses, which are based upon the number or amount of sales, client referrals or new accounts. The Supervised Persons receive regular fixed salary and incentive-based compensation from Spectrum. Incentive-based compensation is determined by an evaluation of each Supervised Person’s professional and portfolio performance.

**Item 6 – Supervision**

Spectrum manages client portfolios using a team approach. Mark Lieb serves as the President and Chief Executive Officer of Spectrum and is responsible for supervising Messrs. Jacoby and Byer. Mr. Lieb reports to Spectrum’s board of directors. Mr. Lieb may be reached at (203) 322-0189 or via email at [mlieb@bloomberg.net](mailto:mlieb@bloomberg.net). Mr. Jacoby, as Chief Investment Officer, and Spectrum’s Investment Committee, monitor all client portfolios on a regular basis, and no less frequently than weekly, and may initiate a more detailed review of a client account if a situation warrants. The Investment Committee is composed of Spectrum’s President/CEO, CIO, COO and the other Portfolio Managers. Mr. Jacoby supervises Messrs. Diaz, Giangregorio and

Krishnan. Mr. Jacoby may be reached at (203) 322-0189 or via email at [pjacoby@samipfd.com](mailto:pjacoby@samipfd.com). Spectrum senior personnel monitor the advice rendered by Supervised Persons to clients by, among other things, reviewing electronic and hard copy communications, participating in and overseeing client meetings, and reviewing client reports and market commentaries.