

# **Aware Asset Management, Inc.**

## **Part 2A of Form ADV Firm Brochure**

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This Brochure provides information about the qualifications and business practices of Aware Asset Management, Inc. (“AAM”). If you have any questions about the contents of this Brochure, please contact us at 651-662-9886 and/or [info@awareassetmgmt.com](mailto:info@awareassetmgmt.com). The information in this Brochure has not been approved or verified by any securities authority.

AAM is a federally-registered investment adviser. AAM’s registration does not imply any level of skill or training. Additional information about AAM is also available on the SEC’s website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).

## **Item 2 - Material Changes**

This is Aware Asset Management, Inc.'s ("AAM") initial Brochure and as such all information is being provided for the first time. In the future, this Item will discuss only specific material changes that have been made since our last annual amendment. Pursuant to industry regulations, we will ensure that you receive a summary of any material changes to this and subsequent Brochures within 120 days of the close of our business' fiscal year. We may further provide other ongoing disclosure information about material changes as necessary.

A current Brochure can be requested at any time, without charge, by contacting us at 651-662-9886 and/or [info@awareassetmgmt.com](mailto:info@awareassetmgmt.com).

Additional information about AAM is also available via 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 AAM who are registered, or are required to be registered, as investment adviser representatives of AAM.

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## Item 4 - Advisory Business

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Aware Asset Management, Inc. (AAM) offers Discretionary Investment Management and Asset Allocation services as a federally-registered adviser and wholly owned subsidiary of Aware Integrated, Inc. With investment teams in place since 2012, AAM commenced operations in 2017 by transitioning the investment division from BCBSM, Inc., d/b/a Blue Cross and Blue Shield of Minnesota (“Blue Cross”), which is also a subsidiary of Aware Integrated, Inc.

### Investment Management Advisory Services

Our Discretionary Investment Management Fixed Income strategies include:

AAM’s **Intermediate Credit Bond Strategy** has the objective of yield enhancement and generating risk-adjusted returns by investing in credit markets utilizing a broad number of securities. The target attributes include:

<b><i>Average Credit Quality:</i></b>	<b><i>&gt;=A-</i></b>
<b><i>Country Exposure:</i></b>	<b><i>Developed Markets (sovereign credit ratings &gt;AA-) with a bias towards US and Canada</i></b>
<b><i>Cash:</i></b>	<b><i>0 to 5%</i></b>
<b><i>Effective Duration:</i></b>	<b><i>+/- 10% of Benchmark Duration</i></b>
<b><i>No. of Issuers:</i></b>	<b><i>&gt;100</i></b>
<b><i>Benchmark:</i></b>	<b><i>Bloomberg Barclays Intermediate Credit Index</i></b>

AAM’s **Core Bond Strategy**’s objective seeks to outperform the benchmark while enhancing yield and providing diversification utilizing a broad number of securities to minimize risk. The target attributes include:

<b><i>Credit Quality:</i></b>	<b><i>&gt;=A-</i></b>
<b><i>Country Exposure:</i></b>	<b><i>Developed Markets (sovereign credit ratings &gt;AA-) with a bias towards US and Canada</i></b>
<b><i>Cash:</i></b>	<b><i>0 to 5%</i></b>
<b><i>Effective Duration:</i></b>	<b><i>+/- 10% of Benchmark Duration</i></b>
<b><i>No. of Issuers:</i></b>	<b><i>&gt;100</i></b>
<b><i>Benchmark:</i></b>	<b><i>Bloomberg Barclays Aggregate Index</i></b>

### **Asset Allocation Advisory Services**

AAM's Asset Allocation Advisory Service provides assistance to Clients in formulating long-term, strategic asset allocation plans. With inputs gathered from the Client, including investment objectives, risk tolerance and other factors, AAM conducts asset allocation modeling. The output of this process sets the parameters for future risk and return expectations, which are used as a tool for establishing relative asset positioning.

When appropriate, AAM will also review various independent investment managers and make recommendations as to which manager(s) are appropriate to implement based upon the Client's Investment Policy Statement. AAM will monitor and supervise Client investments and will make recommendations to the Client as market factors and Client needs dictate.

### **Tailoring of Advisory Services**

AAM tailors its service to the needs of each client according to the Client's Investment Policy Statement, including restrictions on securities available for investment. Common restrictions on investing in securities include the prohibition on investing in companies who generate more than a nominal portion of their revenue from the sale of tobacco products.

### **Advisory Assets Under Management**

Within the initial 120 days of our initial application approval, AAM anticipates that it will have approximately \$800 million in discretionary assets under management.

## **Item 5 - Fees and Compensation**

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Fees for all advisory services are outlined in the Investment Management Agreement. Discretionary investment management fees are based on assets under management within a specific discretionary strategy (Intermediate Credit Bond or Core Bond) and calculated on the fair market value of the account assets on the last day of the calendar quarter. Fees in all categories and ranges described below are subject to negotiation as appropriate. Tiered investment management pricing for assets under management is as follows:

First \$50 million	0.30%
Greater than \$50 million	negotiable

Fees for asset allocation advisory services are based on the assets under advisory and exclude any amounts included in discretionary management with AAM. Fees for Asset Allocation Services are negotiable and may be waived under certain conditions. Because of the nature of the independent managers recommended to Clients through the Asset Allocation Advisory service, this service is

only available for Clients who are qualified purchasers as defined in section 2(a)(51)(A) of the Investment Company Act.

The specific manner in which fees are charged by AAM is established in the Client's Investment Management Agreement with AAM. AAM bills fees, in arrears each calendar quarter. Clients authorize AAM to directly debit fees from Client accounts. Clients may elect to be billed for service. Clients and AAM may also offset any amounts due to the other party during the quarter. Accounts initiated or terminated during a calendar quarter will be charged a prorated fee. Upon termination of any account, any prepaid, unearned fees will be promptly refunded, and any earned, unpaid fees will be due and payable.

Fees charged to affiliates are generally less than fees charged to unaffiliated Client accounts.

AAM fees are exclusive of brokerage commissions, transaction fees, and other related costs and expenses which shall be incurred by the Client. Clients may incur certain charges imposed by custodians, brokers, third party investment managers and other third parties such as fees charged by managers, custodial fees, deferred sales charges, odd-lot differentials, transfer taxes, wire transfer and electronic fund fees, and other fees and taxes on brokerage accounts and securities transactions. Mutual funds and exchange traded funds also charge internal management fees, which are disclosed in a fund's prospectus. Such charges, fees and commissions are exclusive of and in addition to AAM's fee, and AAM does not receive any portion of these commissions, fees, and costs.

Item 12 further describes the factors that AAM considers in selecting broker-dealers for Client transactions and determining the reasonableness of their compensation (*e.g.*, commissions and trading costs).

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

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At the present time, AAM does not manage assets for Clients with 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**

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AAM offers discretionary asset management and non-discretionary asset allocation services to insurance companies, including separate accounts of insurance companies, and other institutional investors, typically with \$50 million or more in investable assets.

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

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### Methods of Analysis and Investment Strategies

AAM's overall investment strategy looks to take advantage of investment opportunities as they present themselves within the investable universe of the mandate. AAM's investment process includes the following elements:

- **Economic/Market Review** which includes an extensive fourth quarter review of global economic and market environments to identify thematic scenarios for an investment basis (opportunities and/or threats) and to develop annual short-term and long-term themes that provide the basis for our overall portfolio positioning. Themes are continuously monitored through the year for unexpected changes with the ultimate objective of the review focused on establishing and adjusting the portfolios' credit positions.
- **Security Selection** originates through internal research and broker recommended sources. Potential purchases are run through AAM's internal screening methodology to identify credits with attractive relative value, strong capital structure and bondholder supportiveness. The portfolio team works to ensure that the best combination of investment ideas are identified with thorough fundamental and technical analysis. The Investment Manager ultimately approves consensus decisions of the Investment Team.
- **Portfolio Construction** incorporates security selection with current investment themes to strategically allocate portfolio risk. Security selection decisions begin with our internal selection model, which identifies securities poised for an upgrade or downgrade and their relative spread to Treasury. Sector allocation decisions are based in part by our investment themes and according to the relative attractiveness of our model's credit recommendations. Finally, a risk overlay is applied to sector allocation recommendations to limit excessive risk concentration in terms of downside risk.
- **Portfolio Performance Reviews** monitor performance and critically evaluate the credit, portfolio and performance risks with daily, weekly and monthly analysis considerations. AAM continuously monitors credit exposures for signs of quality deterioration.

As loss aversion plays the key role in AAM's investment process, some opportunities may take longer to build consensus support. This consensus, prior to the Investment Director's or Investment Manager's ultimate decision, provides additional confirmation that a thorough risk analysis is completed with each investment decision. Securities are sold if they no longer fit into the overall investment theme derived from the annual economic/market review, if the credit no longer meets the overall selection fundamentals, or if the relative value of the security deteriorates.

When providing non-discretionary asset allocation services with third-party manager recommendations, AAM will make recommendations as to asset allocation and which manager(s) are appropriate to implement, based upon the Client's Investment Policy Statement. In performing an investment manager search and/or review, AAM utilizes both quantitative, as well as qualitative criteria. Quantitative criteria include items such as long-term performance, consistency of returns, risk characteristics, a review of the investment manager's overall performance in both up and down markets and their performance versus benchmarks and peers. The qualitative criteria includes, among other considerations, strength of personnel, structure of investment process, Client servicing and pricing. In conducting an investment manager search, AAM will run preliminary screens from both internal and external databases, ranking finalist firms based on our view of what manager may achieve the "best Client fit" based on the identified needs. On an ongoing basis, AAM will monitor and supervise Client investments, making recommendations to the Client as market factors and the Client's needs dictate.

### **Summary of Investment Risks and Risk of Loss**

All investments entail the risk of loss and Clients must understand and acknowledge that investments may lose value. Securities markets may go through periods of declining values, although investments may lose value even in a rising market. AAM's asset management services are generally suitable only for long-term investment objectives or strategies, rather than short-term trading purposes. It is important that each Client understand that there is no guarantee that investment objectives will be achieved and that Clients could lose money.

The following describes the various risks that may be associated with AAM's asset management strategies:

**Allocation Risk** – is the risk that a strategy could lose money as a result of less than optimal or poor asset allocation decisions as to how its assets are allocated or reallocated among sectors and/or asset classes.

**Concentration Risk** – is the risk that the performance of a strategy that focuses its investments in a particular or limited segments, sectors, industries, universes or asset classes may be more susceptible to a single economic, regulatory or technological occurrence than an investment portfolio that does not concentrate its investments in a single or limited segments, sectors, industries universes or asset classes.

**Credit Risk** – is the risk that an issuer of a debt security, (or an underlying obligor), or other fixed income obligation will not make payments on the security or obligation when due, or that the other party to a contract will default on its obligation. There is also the risk that an issuer could suffer adverse changes in financial condition that could lower the credit quality of a security, potentially resulting in an increase in the yield spread. This can be



magnified for longer maturity securities. This could lead to greater volatility in the price of the security and in the performance of an account. Also, a change in the quality rating of a debt security or other fixed income obligation can affect the security's or obligation's liquidity and make it more difficult to sell. Some strategies attempt to minimize the credit risk by investing in primarily investment grade obligations. However, all securities and obligations, especially those in the lower investment grade rating categories, have credit risk. In adverse economic or other circumstances, issuers of these lower credit quality securities and obligations are more likely to have difficulty making principal and interest payments than issuers of higher credit quality securities and obligations.

**ETF Risk** – is the risk that an account that invests in exchange traded funds (ETFs) may be subject to additional risks that do not apply to conventional mutual funds, including the risks that the market price of an ETF's shares may trade at a premium or discount to its Net Asset Value (NAV) per share, an active secondary trading market may not develop or be maintained, and trading may be halted by, or the ETF may be delisted from, the exchange on which they trade, which may impact the ability to sell shares of the ETF. The lack of liquidity in a particular ETF could result in it being more volatile than the ETF's underlying portfolio of securities. ETFs are also subject to the risks of the underlying securities or sectors the ETF is designed to track and there are brokerage commissions paid in connection with buying or selling ETF shares. In addition, ETFs have management fees and other expenses. Each investor in an ETF will bear its pro rata portion of these expenses and therefore the account's return may be lower than if it invested directly in securities in which the ETF invests.

**Event Risk** – is the risk that a natural disaster, takeover, corporate restructuring or regulatory change will impact the ability of the issuer to make interest and principal payments.

**Extension Risk** – is the risk that borrowers could pay back the principal on certain debt securities such as Mortgage-Backed Securities or Asset-Backed Securities more slowly than expected thus lengthening the average life of such securities. This could cause the value of such securities to be more volatile or decline more than other fixed income securities and may magnify the effect of a rate increase on the price of such securities. This could also affect securities of companies such as mortgage REITs who invest in these securities.

**Foreign Securities Risk** – is the risk of investing in foreign securities; it typically involves more risks than investing in U.S. securities, and includes risks associated with political and economic developments, different legal systems or practices, trading practices, availability of information, limited markets, and currency exchange rate fluctuations and policies.

While AAM does not currently include non-US Dollar denominated securities within its discretionary strategies, currency exchange rate fluctuations and policy-related risks still apply. Even if a strategy does not invest in foreign securities, certain of these risks also apply to securities of U.S. companies with significant foreign operations. Certain of these risks may also apply to companies that have incorporated in a foreign jurisdiction, but maintain substantial U.S. domestic operations as well as companies domiciled abroad that issue US Dollar denominated securities which are included in an index. These risks increase the potential for losses.

**Government Sponsored Entities Risk** – is the risk that investments in debt securities issued by U.S. government sponsored entities such as the Federal National Mortgage Association, the Federal Home Loan Mortgage Association, and the Federal Home Loan Banks are not backed by the full faith and credit of the U.S. government. With respect to these entities, the investor must look principally to the agency or instrumentality issuing or guaranteeing the obligation for ultimate repayment, which agency or instrumentality may be privately owned. There can be no assurance that the U.S. government would provide financial support to its agencies or instrumentalities (including government-sponsored enterprises) where it is not obligated to do so.

**Inflation Risk** – is the risk that inflation will erode the purchasing power of the value of securities held by the account or the value of dividends for the account. Fixed-rate debt and preferred equity securities may be more susceptible to this risk than floating-rate debt securities or common equity securities, whose value and dividends may increase in the future.

**Interest Rate and Yield Curve Risk** – is the risk that the value of a debt security or fixed income obligation, and in some cases equity securities that have a large component of expected return from current income, will be affected by a change in market interest rates and the market interest rate structure. Generally, when interest rates rise, the value of such a security or obligation decreases. Conversely, when interest rates decline, the value of such a security generally increases. Long-term fixed income obligations are generally more sensitive to interest rate changes. When market interest rates have been high or low for quite some time, an upward or downward movement in interest rates could be sudden and not well anticipated by the market or AAM or both. Rate changes or rate structure changes resulting from government action and changes in fiscal or monetary policy change could have a swift and significant impact on fixed income securities, including falling market values and reduced liquidity. Substantial redemptions from bond, income funds and other investors may worsen that impact. Other types of securities also may be adversely affected from an increase in interest rates.

**Liquidity Risk** – is the risk that due to trading volume, lack of a market maker or legal restrictions the ability to sell particular securities at an advantageous price or a timely manner is negatively impacted. The recent increase in capital requirements and potential for increased regulation can negatively impact market liquidity going forward. In the event certain securities experience limited trading volumes, the prices of such securities may display abrupt or erratic movements at times. In addition, it may be more difficult to buy and sell significant amounts of such securities without an unfavorable impact on prevailing market prices. As a result, these securities may be difficult to sell at a favorable price at the times when the manager believes it is desirable to do so. Investment in securities that are less actively traded (or over time experience decreased trading volume) may restrict the ability to take advantage of other market opportunities.

**Market Risk** – is the risk that the value of the instruments in which an account invests may go up or down in response to the prospects of individual companies, particular industry sectors or governments and/or general economic conditions. Securities are subject to adverse trends in the overall market. Securities are subject to price movements due to changes in general economic conditions, the level of prevailing interest rates, investor perceptions of the market and defaults or volatility in securities not held by a strategy but that impact general market trends and conditions. Market prices of equity securities generally are more volatile than debt securities. Global economies and financial markets are becoming increasingly interconnected, which increases the possibilities that conditions in one country or region may adversely affect issuers in another country or region, which in turn may adversely affect securities held by the strategy. These circumstances have also decreased liquidity in some markets and may continue to do so. Market risk may affect a single issuer or the market as a whole. In addition, market risk may affect a specific strategy. As a result, an account may underperform the market as a whole.

**Manager Risk** – is the risk that a specific independent investment manager underperforms their assigned benchmark or loses money. Risks related to a specific independent investment manager are described in more detail by each independent investment manager recommended by AAM as part of the Asset Allocation Advisory service.

**Municipal Securities** – is the risk associated with investments in Municipal Securities which include the risk of bankruptcy of the issuer or inability to generate sufficient revenues to repay the obligation.

**Non-Government Securities Risk** – is the risk that payments on a non-government security will not be made when due, or the value of such security will decline, because the security is not issued or guaranteed as to principal or interest by the U.S. Government or by agencies or authorities controlled or supervised by and acting as instrumentalities of the

U.S. Government. The risk of non-payment by the issuer of any non-agency security increases when markets are stressed.

**Prepayment Risk** – is the risk that falling interest rates could cause prepayments of mortgage-related or other securities to occur more quickly than expected. This occurs because, as interest rates fall, more property owners refinance the mortgages underlying these securities. Fixed income securities with call provisions may also be prone to being called during periods of falling interest rates. The account reinvests the prepayments or call proceeds at a time when interest rates on new mortgage investments or other fixed income securities are falling, reducing the income to the account. In addition, when interest rates fall, prices on mortgage-related securities may not rise as much as for other types of comparable debt securities because investors may anticipate an increase in mortgage prepayments.

**Reinvestment Risk** – is the risk that income will decline if the strategy reinvests the proceeds of matured or sold securities at market interest rates that are below its portfolio earnings rate.

**Structured Securities Risk** – is the risk of participation in revenue and loss or repayment of principal when certain conditions are experienced by the underlying assets. This risk will vary with each tranche of a given structured security and will depend on the provisions of the instrument.

**Volatility Risk** – is the risk that a change in the expected yield volatility on a fixed income security with embedded call or put options will impact the price of the fixed income security.

## **Item 9 – Disciplinary Information**

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AAM has no reportable disclosures regarding legal or disciplinary events.

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

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Neither AAM nor any of its affiliates is registered, nor do they have an application pending to register, as a broker-dealer or a registered representative of a broker-dealer. Neither AAM nor any of its affiliates is registered, or has an application pending to register, as a futures commission

merchant, commodity pool operator, a commodity trading advisor, or an associated person of the foregoing entities.

As mentioned in Item 4 – Advisory Business above, AAM is under common control with BCBSM, Inc., d/b/a Blue Cross and Blue Shield of Minnesota, a Minnesota non-profit health service plan corporation and MII Life, Incorporated, a Minnesota licensed life insurance company. Certain executives of Blue Cross are involved in the management of AAM’s business or serve on AAM’s board. Certain executives and directors of certain executives and directors of MII Life, Incorporated, are involved in the management of AAM’s business or serve on AAM’s board. AAM has entered into an Administrative Service Agreement with Blue Cross for Blue Cross to provide staff, facilities and other administrative service. All of AAM’s directors, officers and staff are also employees of Blue Cross.

AAM has been hired to provide advisory services to their affiliate entities, which could create a conflict of interest in that AAM could have an incentive to affiliate Clients over other Clients. This is mitigated by internal policies and internal controls related to order aggregation, allocation and trading that are supervised as a part of its compliance program.

## **Item 11 – Code of Ethics**

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AAM has adopted a Code of Ethics for all supervised persons of the Firm describing its high standard of business conduct and fiduciary duty to Clients. The Code of Ethics includes provisions relating to the confidentiality of Client information, a prohibition on insider trading and personal securities trading procedures. All supervised persons at AAM must acknowledge the terms of the Code of Ethics annually, or as amended.

The Code of Ethics is designed to assure that the personal securities transactions, activities and interests of the employees of AAM will not interfere with (i) making decisions in the best interest of advisory Clients and (ii) implementing such decisions while, at the same time, allowing employees to invest for their own accounts. Under the Code of Ethics, certain classes of securities have been designated as exempt transactions, based upon a determination that these would materially not interfere with the best interest of AAM’s Clients. In addition, the Code of Ethics requires pre-clearance of some types of transactions. Trading by access persons is continually monitored under the Code of Ethics, and to reasonably prevent conflicts of interest.

AAM’s Clients or prospective Clients may request a copy of the Firm's Code of Ethics by contacting AAM via email at [info@awareassetmgmt.com](mailto:info@awareassetmgmt.com).

## **Item 12 – Brokerage Practices**

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### **Factors Considered in Selecting Broker-Dealers**

AAM is responsible for selecting the broker-dealer to execute all Client transactions. Purchases and sales of securities for Clients are made in accordance with the investment objectives, strategies and policies of each Client. It is AAM's policy to seek best execution on behalf of its Clients – that is, AAM seeks to achieve the best overall qualitative execution for a Client in a particular circumstance. "Best execution" is not synonymous with the lowest brokerage commission, lowest trading cost or the best price level. Consequently, in a particular transaction a Client may pay a brokerage commission or incur trading costs in excess of that which might have been paid or incurred through another broker executing the same transaction. A trade is not always executed at the most advantageous price level. AAM has a best execution policy which describes practices used to seek best execution and outlines how execution is monitored. The results of execution review are reported and reviewed at least annually by senior management.

### **Determining Reasonableness of Commissions and Trading Costs**

AAM may, consistent with its obligation to seek best execution, effect securities transactions with a broker which cause Clients to pay the broker commissions or incur trading costs in excess of the commissions charged by or trading costs incurred through another broker. When purchasing certain securities in the secondary market, AAM does not necessarily solicit competitive offers from multiple brokers or seek the lowest available trading cost, but rather bases the purchasing decision on the overall value of offers presented compared with the pricing levels of the broader market. When selling securities, AAM will seek competitive bids, although the highest bid may not result in the lowest available trading cost. Although AAM will make a good faith determination that the amount of trading costs is reasonable, commission rates and certain other components of trading costs are generally negotiable and selecting brokers on the basis of considerations that are not limited to the commission rates may result in higher trading costs than would otherwise be obtainable.

### **Soft Dollar Practices and Brokerage for Client Referrals**

AAM does not use Client brokerage commissions to obtain research or other products or services from broker-dealers. As a result, AAM believes this creates a more conflict-free trading environment for its Clients. AAM also does not receive referrals of Clients from any broker-dealers with whom it engages in trading.

### **Aggregation of Client Trades**

AAM aggregates purchases and sales of securities for multiple Clients as described below. AAM will not aggregate trades unless AAM believes that aggregation is consistent with its duty to seek best execution and is consistent with the terms of the investment management agreement with each Client for which trades are being aggregated. The aggregation of trades permits the trading of

blocks of securities from multiple Clients' accounts. Aggregation generally allows execution of transactions in a more timely and efficient manner, and may reduce overall execution costs and impact on the market price of the underlying securities.

Clients participating in an aggregated trade will be allocated securities based on the average price achieved for such trades. Generally, with respect to partially filled orders, participants will receive the average price for the transactions executed in the relevant security and share transaction costs pro rata based on the account's order size.

#### **Aggregation with Affiliated Accounts**

Certain affiliated accounts may trade in the same securities with Client accounts on an aggregated basis when consistent with AAM's obligation of best execution. In such circumstances, the affiliated and Client accounts will share commissions and trading costs equally and receive securities at a total average price. AAM will retain records of the trade order (specifying each participating account) and its allocation, which will be completed prior to the entry of the aggregated order. Completed orders will be allocated as specified in the initial trade order. Partially filled orders will be allocated on a pro rata basis.

### **Item 13 – Review of Accounts**

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Investment Manager(s) review Client accounts on a continuous basis. This review involves assessing various attributes of each account, including portfolio guidelines and characteristics, asset values, changes in gains and losses, credit ratings and portfolio structure.

AAM provides written account reports to Clients monthly or quarterly, depending on the particular arrangement with each Client. Matters covered by the reports are as requested by the Client and generally include asset values, performance, performance attribution, sector concentrations, yield curve exposure, portfolio structure, transactions and holdings and may include the account's portfolio guidelines and guideline compliance.

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

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AAM may agree to pay third-party placement agents that refer Clients. Currently, AAM currently has no placement agents acting for its benefit.

## **Item 15 - Custody**

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Clients agree to maintain a segregated custody account with regard to the investment assets managed according to their Investment Management Agreement with AAM. AAM does not act as a qualified custodian for client accounts and, in the normal course of its duties, does not take physical custody or control of Client assets. Clients should receive at least quarterly statements from the broker dealer, bank or other qualified custodian that holds and maintains their investment assets. AAM urges careful review of such statements and the comparison of such official custodial records to the account reports that may be provided by AAM. Our reports may vary from custodial statements based on accounting procedures, reporting dates, or valuation methodologies of certain securities.

Due to the nature of the relationship with clients, AAM has custody under Rule 206(4)-2 of the Investment Advisers Act of 1940. With respect to these relationships, AAM has implemented the following custody controls:

- Reasonable due inquiry to verify that the qualified custodian provides clients with at least quarterly account statements
- Internal policies and procedures and other controls designed to prevent and mitigate AAM or its employees having unauthorized access to Client assets; and
- Annual surprise examinations by an independent public accountant to verify the existence of client assets.

## **Item 16 – Investment Discretion**

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AAM has full discretionary authority with respect to investment decisions, in accordance with the Investment Management Agreement which is executed at the outset of an advisory relationship. AAM's full discretion includes the authority to select the identity and amount of securities to be bought or sold. In all cases, however, such discretion is to be exercised in a manner consistent with the stated investment policy statement, as may be amended time to time by the Client. When selecting securities and determining amounts, AAM observes the investment policies, limitations and restrictions of each Client.

AAM may also provide non-discretionary services related to asset allocation and the ongoing selection and monitoring of external managers for investment assets held outside of the AAM discretionary investment management relationship.



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

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AAM has the authority to vote corporate proxies and other corporate actions on behalf of Clients. AAM will generally vote proxies relating to routine matters consistent with the recommendations of the company's management unless it determines that it is in the best interest of the Client to do otherwise. Routine matters include, without limitation, routine election of directors (where no corporate governance issues are implicated), the selection of auditors and increases of common stock. For all non-routine matters, AAM will consider the proxy proposal on a case-by-case basis taking into account various factors, including the analysis, research and recommendation provided by a third party proxy service, whether the proposal was recommended by management and other factors it deems relevant.

AAM may abstain from voting if, based on factors such as expense or difficulty of exercise, it determines that interests are better served by not voting.

In the event that a conflict of interest is identified in connection with voting a particular proxy, a special committee will be assembled and determine the appropriate actions with respect to voting the proxy.

Clients may obtain a copy of AAM's complete proxy voting policies and procedures upon request. Clients may also obtain information from AAM about how AAM voted any proxies on behalf of their account(s).

## **Item 18 – Financial Information**

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AAM is not required to include a balance sheet for its most recent fiscal year, has no financial commitment that impairs its ability to meet contractual and fiduciary commitments to Clients, and has not been the subject of any bankruptcy proceeding.