

**Item 1**



**Firm Brochure**

**Part 2A of Form ADV**

This brochure provides information about the qualifications and business practices of Abner, Herrman & Brock, LLC (AHB). If you have any questions about the contents of this brochure, please contact us at: 201-484-2000, or by email at: [info@ahbi.com](mailto:info@ahbi.com). The information in this brochure has not been approved or verified by the United States Securities and Exchange Commission, or by any state securities authority.

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

January 3, 2014

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**Item 2****Material Changes since the Last Update**

This item discusses only the material changes made to this brochure since the last annual update.

- Update to Item 5, Appendix A, Fee Schedule

**Full Brochure Available**

Whenever you would like to receive a complete copy of our Firm Brochure, please contact us by telephone at: 201-484-2000 or by email at: [info@ahbi.com](mailto:info@ahbi.com).

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**Item 4 [A, B, C, D, E]****Advisory Business****Description of Advisory Firm**

Abner, Herrman & Brock LLC ("AHB") was founded in 1981. The firm provides investment management services on a discretionary basis. Investment services are provided within guidelines formulated with each client, based upon defined investment objectives. AHB, a registered broker-dealer, also provides a variety of execution and other brokerage services to clients on a fully disclosed basis through JP Morgan Clearing Corp., Inc. ("JP Morgan"), AHB's clearing broker. Abner, Herrman & Brock LLC is principally owned by the Howard Abner Trust.

**Types of Advisory Services**

We offer the following types of advisory services, Private Client, Investment Advisory in wrap fee programs, Model Portfolio Vendor and Consulting Services.

**Private Client**

AHB provides investment management services, also known as asset management services to individuals, endowments, pension and profit-sharing plans, trust, estates, charitable organizations, corporations and other business entities. AHB equity portfolios are typically comprised of large capitalization companies invested in these companies common stocks. Fixed income portfolios may be invested in investment grade corporate bond securities, investment grade municipal bond securities, US government agency bonds and US government Treasury securities. Balanced portfolios are invested in a combination of the above mentioned equity and fixed income securities.

For Private Clients, AHB tailors a portfolio to a client's individual needs and investment objectives. During initial conversations with prospective clients, investment objectives are identified, an asset allocation plan is devised, any specific securities restrictions the client may have and the firm's advisory fee structure is discussed. The investment strategy for a specific client is based upon the objectives stated by the client during consultations. The client may change these objectives at any time. Clients may impose restrictions on investing in certain securities or types of securities. We review these requests on a case by case basis.

If clients elect to retain AHB as a portfolio manager, clients are provided with a letter outlining the agreed upon objectives, asset allocation plan and fee structure. Each client executes a contractual Investment Advisory Agreement which also designates a custodian to hold their securities and a broker that will execute transactions to be effected on their behalf by AHB. Agreements may not be assigned without client consent.

**Advisor to Wrap Fee Programs**

AHB provides its portfolio management services to wrap fee programs that are offered at other institutions (also known as “separately managed accounts” programs or “SMA” programs). There is no difference in the investment management that AHB provides to these wrap fee accounts from the investment management provided to other accounts. As compensation for our investment management services, AHB receives a portion of the wrap fee that is charged by the financial institution that is sponsoring the wrap program. Some of the SMA programs are structured such that AHB is the sub-advisor to the sponsor of the program.

**Model Portfolio Vendor**

AHB has relationship with a Registered Investment Advisor in which AHB designs, monitors and updates one or more model portfolios that are to meet the objectives set forth by the client. These portfolios are managed with the same investment philosophy and strategy as other accounts are managed by AHB. AHB does not have discretion in the management of such portfolios. AHB’s recommendations that are provided to the client (the RIA) are used by such clients in their sole discretion, whether or not and to what extent to implement the model portfolios and/or each recommendation. AHB receives a fee for these investment services that is based on the average value for the aggregate client assets in the Model Portfolio Accounts managed using the Model Portfolio at the beginning of the quarter. This service is impersonal and not tailored to the client needs because we have no knowledge of the client’s financial situations. The RIA is responsible for all trading and client interaction. The model portfolios are not considered AHB assets under management and therefore not included in our AUM calculations. Model Portfolios may be subject to lesser or greater advisory fees depending on the simplicity or complexity of the objective.

**Consulting Services**

We offer consulting services to other fiduciaries, including other investment advisors that includes advice on financial markets and may include providing one or more model portfolios as a part of this comprehensive consulting agreement.

**Client Assets**

As of December 31, 2013, Abner, Herrman & Brock, LLC manages approximately \$1.126 billion in assets for approximately 600 clients. Approximately \$1.103 billion is managed on a discretionary basis, and \$23 million is managed on a non-discretionary basis.

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**Item 5 [A, B, C, D, E]****Fees and Compensation****Fees**

How we are paid depends on the type of advisory service we are providing but generally we are compensated on the basis of fees calculated as a percentage of a client's assets under management.

**Private Client***Investment Advisory Fees*

AHB private clients are charged investment advisory fees that are based upon a percentage of assets under management and vary depending upon the asset allocation of the portfolio to be managed. Clients who choose to be in AHB's Wrap Fee Program receive investment management, brokerage and custodial services for an all-inclusive (or "wrap") fee which varies depending upon the asset allocation of the portfolio. Clients whose assets are invested in a money market fund or another fund that incurs an investment advisory fee will pay AHB advisory fees, and any expense and advisory fees associated with the fund. The initial meeting, which may be by telephone, is free of charge and is considered an exploratory interview to determine the extent to AHB investment management may be beneficial to the client. In addition to the wrap fee, clients pay an administrative service charge on each transaction in the portfolio. Our Private Client wrap fee schedule for our investment strategies is presented in Appendix A.

AHB Private Client investment management fees are billed quarterly, in advance, for advisory services that will be rendered during such quarter. The fee is listed in a client's written agreement with us. The fees are calculated based upon the market value of the portfolio (securities and cash) at the end of each quarterly month end. Payment in full is expected upon invoice presentation. Clients may choose to be billed directly for fees or to have us directly debit fees from their accounts. The client must consent in advance to direct debiting of their investment account. The fees charged to any given client by AHB may be higher than fees charged to other clients, either by AHB or by other financial advisors, for advisory services to accounts of comparable size and investment objectives. Although the Investment Advisory Agreement is an ongoing agreement and constant adjustments are required, the length of service to the client is at the client's discretion. The client or the investment manager may terminate the Investment Advisory Agreement by written notice to the other party. Fees paid in advance of termination will be prorated to the date of termination and any unearned portion will be refunded to client. The portfolio value at the completion of the prior full billing quarter is used as the basis for the fee computation, adjusted for the number of days during the billing quarter prior to termination. The date of termination will be the earlier of 30 days after

receiving written notification from the client of its intention to terminate or 30 days from the date the client's assets are removed from the account.

#### *Commission Compensation*

AHB executes transactions on behalf of customers who are not advisory clients but for whom AHB maintains brokerage accounts on both a discretionary and non-discretionary basis. AHB receives compensation for those accounts only in the form of brokerage commissions. When AHB acts as broker, AHB charges brokerage commission rates in accordance with the standard schedule of rates then prevailing at JP Morgan, its clearing broker, less certain discounts which it may negotiate with its clients. Clients pay AHB commissions for effecting such transactions and may also pay market makers a markup or mark down which is included in the offer or bid price of the securities purchased or sold. Trade confirmations indicating the commissions charged on such transactions are sent to clients by JP Morgan through which AHB clears such trades. Additional information about AHB's brokerage commission schedule for brokerage clients (with whom it does not have advisory agreements) and for its advisory clients who pay commission compensation only is available upon request. The brokerage commissions charged by AHB may be higher or lower than those which could be obtained from other brokers or by other portfolio managers.

#### **Advisor to Wrap Fee Programs**

The SMA Programs described in the "Types of Advisory Services" section, generally provide the clients an all-inclusive fee. This fee generally covers advisory fees, trade execution, reports of activity, custodial services, and the recommendation and monitoring of investment managers. As an investment manager on SMA programs, our compensation is a portion of the total managed account program fee paid to the sponsor by the client. Fees are collected either monthly at the end of each month or quarterly depending on the agreement.

#### **Model Portfolios Vendor Fees**

The complexity and customization of the model portfolio will determine the fees associated with this service. In some cases, these client accounts will pay an all –inclusive fee which covers advisory fees, trade execution, reports of activity, custodial services and the recommendation and monitoring of model providers. As a model provider, we receive as compensation a portion of the total managed account program fee that is charged by the sponsor. Fees are collected on a quarterly basis.

#### **Consulting Services**

Our fee for consulting services is a minimum of \$8000 per year, paid in advance on a quarterly basis. This fee typically includes consultation on capital markets.

Supervised persons are not compensated for the sale of securities or other investment products.

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**Item 6****Performance-Based Fees****Sharing of Capital Gains**

Fees are not based on a share of the capital gains or capital appreciation of managed securities. AHB does not use a performance-based fee structure because of the potential conflict of interest. Performance-based compensation may create an incentive for the adviser to recommend an investment that may carry a higher degree of risk to the client which is inconsistent with our investment philosophy.

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**Item 7****Types of Clients****Description and Account Minimum**

AHB generally provides investment advice to individuals, endowments, pension and profit sharing plans, trusts, estates, charitable organizations, corporations and other business entities. The Private Client minimum account size is \$500,000. AHB has the discretion to waive the account minimum when circumstances require it. Other exceptions may apply to employees of AHB and their relatives, or relatives of existing clients. The minimum account size for an account in an SMA program varies by sponsor but generally is \$100,000.

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**Item 8 [A, B, C]****Methods of Analysis, Investment Strategies and Risk of Loss**

AHB employs several investment strategies and it is possible that certain methods of analysis, strategies and risks discussed below may not apply to our management of any particular client's portfolio. The specific investment strategies and risks associated with a client's account may be described in more detail in presentations, investment guidelines, marketing materials and other documents provided or discussions held with that client or investment guidelines provided by the client(or in the case of other sponsors wrap programs, the sponsors brochure or program documentation.) When choosing to allocate assets for investment in securities, clients should recognize this may involve risk of loss and should be prepared to bear such loss if incurred.

**Methods of Analysis**

We use several methods of analysis to make our investment decisions which include fundamental analysis, technical analysis, cyclical and quantitative analysis.



**Fundamental** analysis involves reviewing financial statements to understand the general financial health of a company, and reviewing the management team or advantages the company may have over competitors. We also communicate directly with the companies that we invest in or are under consideration. We regularly hold conference calls or face to face meetings with company management and attend company presentations. This helps us learn the most we can about a company and any relevant changes to the economic landscape. The risk of fundamental analysis is that information obtained may be incorrect or change.

**Technical** analysis involves the analysis of past market data, specifically price and volume and the use of patterns in performance charts. We use this technique to search for patterns that help predict favorable conditions for buying or selling a security. The risk of investing based on technical analysis is that current prices of securities may reflect all information known about the company and day to day changes in market prices may be random which is unpredictable for short periods of time and therefore may not predict future stock movements.

**Cyclical** analysis involves the analysis of the business cycles to find favorable conditions for buying and selling a security. Economic and business cycles may not be predictable and may have many fluctuations between long term expansions and contractions. The lengths of economic cycles may be difficult to predict with accuracy and therefore the risk of cyclical analysis is the difficulty in predicting economic trends and consequent changing values of securities that would be affected by these changes.

**Quantitative** analysis seeks to understand market behavior by using mathematical ratios which evaluate valuation metrics of a particular security. The risks associated with quantitative analysis are that metrics and models may be based on assumptions and subjective judgments that may prove to be incorrect. In using this method of analysis, we also rely on publicly available sources of information which may be inaccurate or misleading.

The main sources of information we use as we do our analysis include financial newspapers and magazines, inspections of corporate activities, research materials prepared by others, corporate rating services, annual reports, prospectuses, corporate filings with the Securities and Exchange Commission, company press releases, online information including but not limited to newsletters, blogs, and webcasts. Investing in securities involves risk of loss that clients should be prepared to bear. The investment committee makes final decisions with regard to securities investments after receiving and reviewing information obtained by AHB and its employees.

**Investment Strategies**

AHB employs a “top down” investment approach which focuses first on the outlook for the overall economy on a short, intermediate and long-term basis. AHB will also identify interest rate directions and those sectors of the economy (consumer, business and government) and those industries in each sector which are likely to be affected favorably and unfavorably by the overall economic outlook on an intermediate and long-term basis, pinpointing industries and particular companies of potential interest. AHB will continually monitor market cycle positions.

The foregoing analysis is performed on an ongoing basis to formulate asset allocation strategies with preservation of capital and achievement of investment objectives being the foremost concern. AHB uses cash-flow management as a component of each of its investment strategies. Specifically, although subject to individual client objectives, the allocation among equities, bonds and cash in each portfolio will change in various markets. For example, overall investment objectives may be met in varying markets by reducing equity or bond exposure in declining markets and seeking expanded exposure and thus rates of return in rising markets.

**Equity Portfolios****Core Equity**

The Core Equity strategy invests in common stocks of large capitalization companies. In general, these companies have a market capitalization of \$4 billion or greater. AHB seeks out well-managed companies offering above-average earnings, dividend growth which are priced at attractive valuations to focus its research. AHB looks for opportunities where market capitalization is large enough to afford easy entry and exit for liquidity in trading. AHB believes that the equity securities it identifies and invests in for clients tend to offer lower volatility and on a relative basis, potentially higher risk-adjusted returns than other stocks not bearing the same characteristics. To the extent feasible, AHB seeks to diversify Equity Portfolios among 5-20 industry sectors and 2-4 companies in each industry. In AHB’s view, such diversification provides for a more prudent level of risk. In managing Equity Portfolios, AHB seeks to attain higher yields and lower volatility as compared with other professionally managed portfolios with similar investment objectives. Equity investments for clients are subject to certain selling disciplines in order to attempt to maximize gains and minimize losses, including consideration being given to selling securities which have appreciated by 50% or depreciated by 10% from purchase price. The investment objective for the Core Equity strategy is growth through a combination of capital appreciation and dividend income.

**Aggressive Equity**

Aggressive equity portfolios have more concentrated positions, may include mid and small capitalization companies and may use margin debt to enhance the portfolio returns. This investment objective for Aggressive Growth portfolios is growth through capital appreciation.

**Custom Balanced Portfolios**

Custom Balanced Portfolios include equities as well as bonds. The equities are the same as in the Core Equity strategy. Bonds are selected from the investment grade Corporate bond, U.S. Government, Agency as well as Municipal bond universe when appropriate. The proportion of bonds to equities in Custom Balanced Portfolios is generally agreed to by the client to achieve their investment objectives before investment management is initiated. AHB seeks to structure the bond portion as described below. The investment objective for Custom Balanced portfolios is both growth and income.

**Fixed Income Portfolios****Taxable Bond Portfolios**

Taxable Bond Portfolios are comprised of U.S. Treasury, government agency, and investment-grade corporate bonds with laddered maturities. Bonds are selected that represent attractive relative values based on the yield curve, bond type and sector spreads. Bond holdings are shifted toward agencies and corporates when the yields from those sectors offer materially higher returns than U.S. Treasuries. Analysis of the yield curve identifies maturities that offer optimal yields within AHB's quality, liquidity and stability requirements. AHB continuously monitors each bond's credit quality in an effort to anticipate a change in the credit rating of the issuer. AHB Taxable Bond Portfolios are broadly diversified by bond type, economic sector and maturity to reduce volatility and generate a high rate of current income and/or capital appreciation. AHB does not participate in "swapping" or "credit anticipation" strategies for bond portfolios. The investment objective for Taxable Bond portfolios is income.

**Municipal Bond Portfolios**

Municipal Bond Portfolios will reflect a client's desire to receive greater after-tax income or tax-exempt capital appreciation. Bond holdings are selected for quality, value and stable income generation. Municipal Bond Portfolio holdings are structured with high quality investment-grade tax-exempt bonds. AHB continuously monitors each bond's credit quality in an effort to anticipate a change in the underlying credit rating of the issuer. Each portfolio is customized to meet the client's risk profile, tax sensitivity and income requirements. The investment objective of Municipal Bond portfolios is tax exempt income.

## **Risk of Loss**

All investment programs have certain risks that are borne by the investor. Our investment approach constantly keeps the risk of loss in mind. Investors face the following investment risks:

- **Interest-rate Risk:** Fluctuations in interest rates may cause security prices to fluctuate. For example, when interest rates rise, yields on existing bonds become less attractive, causing their prices to decline.
- **Market Risk:** The price of a security, bond, or mutual fund may drop in reaction to tangible and intangible events and conditions. This type of risk is caused by external factors independent of a security's particular underlying circumstances. For example, political, economic and social conditions may trigger market events.
- **Inflation Risk:** When any type of inflation is present, a dollar today will not buy as much as a dollar next year, because purchasing power is eroding at the rate of inflation.
- **Currency Risk:** Overseas investments, even if made by domestically based companies, are subject to fluctuations in the value of the dollar against the currency of the investment's originating country. This is also referred to as exchange rate risk.
- **Reinvestment Risk:** This is the risk that future proceeds from investments may have to be reinvested at a potentially lower rate of return (i.e. interest rate). This primarily relates to fixed income securities.
- **Business Risk:** These risks are associated with a particular industry or a particular company within an industry. For example, oil-drilling companies depend on finding oil and then refining it, a lengthy process, before they can generate a profit. They carry a higher risk of profitability than an electric company, which generates its income from a steady stream of customers who buy electricity no matter what the economic environment is like.
- **Liquidity Risk:** Liquidity is the ability to readily convert an investment into cash. Generally, assets are more liquid if many traders are interested in a standardized product. For example, Treasury Bills are highly liquid, while real estate properties are not.
- **Financial Risk:** Excessive borrowing to finance a business' operations increases the risk of profitability, because the company must meet the terms of its obligations in good times and bad. During periods of financial stress, the inability to meet loan obligations may result in bankruptcy and/or a declining market value.

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**Item 9****Disciplinary Information**

There are no legal or disciplinary events related to past or present investment advisory clients.

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**Item 10 [A, B, C, D]****Other Financial Industry Activities and Affiliations****Financial Industry Activities and Affiliations**

Abner, Herrman & Brock, LLC is registered as a securities broker dealer. As a broker, AHB executes transactions on behalf of customers who are not advisory clients but for whom AHB maintains brokerage accounts on both a discretionary and non-discretionary basis. AHB receives compensation for those accounts only in the form of brokerage commissions. As a broker, AHB is a sponsor of its own Wrap Fee Program which is exclusively for customers who have separately retained AHB as an investment advisor of their portfolio. AHB receives a wrap fee (as described above) from such clients when it is so retained. Clients may elect to designate AHB or a broker dealer or custodian of their choice. When AHB is selected as broker dealer, AHB utilizes the correspondent clearing services of JP Morgan to execute all equity transactions as indicated in the advisory agreement, which AHB determines, in the exercise of its discretion as advisor, are consistent with the investment objectives of its clients. As disclosed in the investment advisory agreement, when the client directs brokerage to AHB, for equity transactions, there is no assurance to achieve the most favorable execution for these transactions. For the purchase and/or sale of fixed-income securities, the client authorizes AHB to effect fixed income transactions, subject to AHB's duty to seek the best execution for these transactions.

AHB does not recommend or select other investment advisors for our clients.

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**Item 11 [A, B, C, D]****Code of Ethics, Participation or Interest in Client Transactions and Personal Trading****Code of Ethics**

We have adopted a Code of Ethics, as required under the Investment Company Act of 1940 and the Investment Advisers Act of 1940 which describes our standard of business conduct, and our fiduciary duty to our clients. It serves to make our employees aware of what conduct and behavior is expected of them, including their personal securities transactions and rules against trading upon material nonpublic information so they do not take improper advantage of their positions and the access to information that comes with their position.

The Code of Ethics includes but is not limited to the following areas of conduct; Prohibited Purchases and Sales, Insider Trading, Personal Securities Transactions, Exempted Transactions,

Prohibited Activities, Conflicts of Interest, Confidentiality and Compliance with Reporting Regulations.

A copy of our Code of Ethics is available as a separate document to clients and prospective clients upon request.

### **Participation or Interest in Client Transactions and Personal Trading**

Pursuant to the Code of Ethics and other AHB policies and procedures with regard to confidentiality, and the avoidance of potential conflicts of interest, all transactions executed at AHB, including those on behalf of its principals and employees, are reviewed daily to prevent the misuse of material non-public information by AHB, its principals and employees and other violations of law or conflicts of interest.

From time to time, AHB, as well as principals and employees of AHB, may have positions or may engage in transactions, in the same securities as those purchased or sold for advisory clients. To avoid any potential conflict of interest, transactions affected for principals or employees of AHB within the same time frame as those for clients will be executed at an average price identical to that paid by or to clients. In such circumstances, orders for AHB principals and employees are aggregated with client orders in a manner identical of that explained in the order aggregating section of this brochure regarding AHB average pricing policy. As a matter of policy, AHB prohibits its principals and employees from effecting transactions immediately prior to or after transactions in the same security effected for clients. All transactions are reviewed on a daily basis to ensure adherence to the foregoing policies. AHB receives no payment for order flow.

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## **Item 12 [A, B]**

### **Brokerage Practices**

#### **Selecting Brokerage Firms, Soft Dollars, Brokerage for Client Referrals and Directed Brokerage**

AHB does not make broker dealer or custodian recommendations. After prospective clients decide to retain AHB as its investment advisor, the client executes a standard advisory contract and is asked to designate a broker for execution of all transactions effected on their behalf and a custodian for the purpose of holding the securities and other assets to be held in their portfolio. For clients that do not have a custodial relationship, we inform clients and prospective clients that AHB is a registered broker dealer and is available to execute transactions effected on their behalf by AHB as their investment advisor. If clients choose AHB as its broker dealer, the AHB Investment Advisory Agreement requires that its clients specifically consent to and designate a particular broker (JP Morgan) to be used to execute equity transactions on their behalf. For fixed income securities,

AHB's Investment Advisory Agreements require that its clients authorize AHB to effect securities transactions for portfolio assets, subject to AHB's duty to seek best execution for these transactions. Considerations when placing a trade for a fixed income security with a particular broker include but is not limited the following;

- Quality of execution services provided
- Promptness of execution
- Creditworthiness, business reputation
- Promptness and accuracy of oral, hard copy, or electronic reports of execution and confirmation statements
- Ability and willingness to correct trade errors
- Ability to provide for "step out" transactions

AHB reviews the execution of trades at each custodian each quarter. The review is documented in the AHB Best Execution compliance file.

AHB does not direct brokerage business to other brokers to obtain research or other "soft-dollar" benefits. When AHB subscribes to research or other services made available by other brokers or third parties, it pays for such services with its own funds, not those of its clients. AHB does not direct client transactions to any broker dealer in return for client referrals.

AHB will direct brokerage to a particular broker if it receives written instructions to do so, for example from its advisory clients in SMA programs. Where clients instruct AHB to direct all transactions for execution to a specific broker, AHB does not independently determine whether the commissions charged or execution effected thereafter is done at rates or prices higher or lower than those which could have been obtained had AHB or if another broker acted as the broker. AHB does not negotiate brokerage commissions with other brokers on behalf of its advisory clients who designate other brokers. AHB does not pay a fee of any kind to financial advisors/brokers nor agree to direct any transactions to them for executions in order to be included in their respective firm's SMA program or is AHB affiliated in any way with such brokers. AHB may provide information to such brokers about its investment philosophy, strategies, fees and performance. Before being retained by any advisory client, AHB communicates directly with such potential clients, providing them with information identical to that provided to all prospective clients.

From time to time, AHB may also be identified as one of several potential portfolio managers by other persons such as independent consultants who may charge individuals a fee for such services.

In such circumstances, AHB does not pay a fee of any kind to the consultant nor enter into any agreement to procure or direct services to them, regardless of whether AHB is retained as an investment manager. Nor is AHB affiliated in any way with such consultants who may themselves charge a fee to persons to whom it makes recommendations. AHB may, however, have provided such consultants with information about its investment philosophy, strategies, fees, and performance that may be used by the consultant to identify AHB as a potential investment manager for their client. When potential advisory clients thereafter contact AHB, AHB communicates directly with them in the same manner it does with all prospective clients to determine whether AHB will be retained.

### **Order Aggregation**

Although we individually manage client accounts, we often will purchase or sell the same securities for many accounts if it is in the best interest of each client, consistent with our duty to seek best execution and allowed in client agreements.

For clients whom AHB is the broker dealer, AHB frequently uses an average pricing technique when it determines that more than one client should purchase or sell the same security. In order to achieve a fair result among all of its advisory and brokerage clients for whom it buys or sells the same security on the same day, where practical, AHB will seek to aggregate or “batch” individual orders and seek execution of them as a block or in several blocks through JP Morgan, its clearing broker, working the order in such a way as to avoid a material impact on the market price until all orders are complete. AHB then calculates the average price for all shares so traded. AHB employs an average pricing method in order to avoid having some clients pay more (or receive less) than other clients when their individual investment objectives and portfolio balances warrant investment (or divestiture) of identical securities. The above average pricing method has no impact upon brokerage commissions.

To the extent that a client instructs AHB to direct brokerage transactions with respect to the clients account through a broker other than AHB, AHB may not be able to aggregate or “batch” client transactions for purposes of execution with orders for the same securities for other clients managed by AHB. When possible, we will group the same transactions in the same securities (aggregate trade) for the clients who have the same directed brokerage firm. Also, when practical, we will aggregate the same transactions in the same securities for many clients for whom we have discretion to direct brokerage. Clients in the aggregated trade will receive the same price per share and no client will be favored over another client.



### *Trade Rotation*

For our investment strategies that are available in one or more SMA programs, AHB uses a trade rotation for large block transactions to determine the order in which account groups at different directed brokerage firms will be traded in an effort to seek to soften the market impact of trading and to create an orderly trading process. However, we may choose to deviate from this procedure for some reasons within the discretion of our investment and trading teams including but not limited to a) security involved b) AHB view as to the best interest of clients c) market conditions at the time of the order or d) investment strategy that is the trade is being executed for. The order is maintained for the entire trade and then the order is adjusted for the next significant block trade.

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## **Item 13 [A, B, C]**

### **Review of Accounts**

#### **Periodic Reviews and Review Triggers**

Client accounts are generally monitored daily for consistency with client objectives and restrictions. Portfolio managers and our compliance department perform periodic reviews of each client account on our internal portfolio accounting system. Among other reviews, asset allocation and account performance is monitored. For Model Portfolios, AHB reviews and evaluates model structure and strategy to ensure compliance with the strategies investment objectives, policies and restrictions.

At least annually and more frequently when market conditions dictate, a portfolio is reviewed with the client and/or financial advisor who referred the account. Other conditions that may trigger a review are changes in the tax laws, new investment information, and changes in a client's own situation.

#### **Regular Reports**

AHB direct investment advisory Private Clients receive written quarterly reports. The written quarterly update generally include an Investment Outlook, portfolio holdings, performance for the period, year to date and since inception and the portfolio's stated investment objectives. The clients for which AHB is providing portfolio management services for another firm's Wrap Fee Programs, AHB will send such written quarterly reports if directed to the financial advisor. All advisory clients will receive monthly statements directly from their chosen qualified custodian.

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**Item 14 [A, B]****Client Referrals and Other Compensation****Incoming Client Referrals**

AHB has been fortunate to receive many client referrals over the years. The referrals came from current clients, estate planning attorneys, accountants, employees, personal friends of employees and other similar sources. Often AHB does not compensate referring parties for these referrals. In other cases, we have referral fee arrangements with unaffiliated persons. These arrangements comply with Rule 206(4)-3 and Rule 206(4) -5 requirements under the Investment Advisors Act of 1940. In all cases, clients who are referred by these individuals or organizations do not pay a higher advisory fee than clients who approached or are solicited by AHB directly. Additionally, referral agreements provide that those who refer clients to AHB provide disclosure documents to prospective clients, including but not limited to the most current brochure and documents that disclose, among other things, the nature of the compensation agreement between AHB and the referral party.

AHB does not accept referral fees or any form of remuneration from other professionals when AHB refers a prospect or client to them.

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**Item 15****Custody, Account Statements and Performance Reports**

AHB has the authority to debit investment advisory fees directly from client accounts. All client assets are held at qualified custodians, which mean the custodians provide account statements directly to clients at their address of record on a monthly basis. The monthly statements from the custodian should be reviewed and compared to the quarterly reports that client's receive from AHB. Clients should compare the account statements received directly from their custodians to the quarterly performance report statements provided by AHB.

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**Item 16****Investment Discretion****Discretionary Authority**

AHB accepts discretionary authority to manage securities accounts on behalf of clients. AHB has the authority to determine, without obtaining specific client consent, the securities to be bought or sold, and the amount of the securities to be bought or sold. Discretionary trading authority facilitates placing trades in client accounts on their behalf so that we may promptly implement the investment management agreed to in writing by signing the AHB Investment Advisory Agreement .

For those advisory clients who are clients of wrap fee programs not sponsored by AHB, a trading authorization is generally signed to provide for discretionary trading authority depending on the structure of the agreement between the sponsor firm and AHB. Under certain circumstances on a case by case basis, AHB may accept a client request to place an investment into their advisory account. In most cases, this investment(s) is an “unsupervised” asset, meaning that AHB does not manage or provide advice regarding such asset. If a client holds an unsupervised asset in their advisory account, the client does so with the understanding that the unsupervised asset may not be included in account statements or performance reports provided by AHB and even if it is included in the account statements or performance reports it is not within the discretion or advisory responsibilities of AHB. No advisory fee is charged on “unsupervised” assets.

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**Item 17 [A, B]****Voting Client Securities****Responsibility for Voting Proxies**

AHB does not vote proxies on securities for direct Private Clients and therefore clients are expected to vote their own proxies. Clients will receive their proxies directly from their custodian and can contact us with questions. If assistance on voting proxies is requested, AHB will provide recommendations to our clients. If a conflict of interest exists, it will be disclosed to the client. For certain SMA programs that are not sponsored by AHB and for which AHB provides investment management services, if required by the customer agreement, AHB does vote proxies.

The following procedures apply to the voting of proxies solicited for securities in all accounts of AHB clients where AHB exercises Voting Authority over the way the proxies are to be voted (see below). For accounts where we exercise no such Voting Authority, the procedures do not apply. Where a third party other than AHB exercises Voting Authority in an account, this party must have in place written procedures that comply with the rules.

**The Voting Decision**

Our primary consideration in determining how to vote the proxies is in a manner consistent with the best interest of our clients. AHB’s fiduciary duties to a client do not necessarily require it to become a “shareholder activist” by, for example, actively engaging in soliciting proxies or supporting or opposing matters before shareholders. The duties of care and loyalty are exercised where AHB completes the proxy material and forwards it to the company based on a decision by AHB on how to vote the proxy or whether to vote it at all.

**Conflicts of Interest**

There are circumstances in which a conflict of interest might arise by an Investment Advisor voting proxies on behalf of its client. AHB is obliged to identify, prior to making a Voting Decision for a client account, any material conflict of interest with respect to that Voting Decision. AHB will consider that it has a conflict of interest with respect to any Voting Decision where:

- AHB or an affiliate or associated person is providing advisory, brokerage, underwriting, and insurance or banking services to a company whose management is soliciting proxies.
- AHB or an affiliate or Associated Person has a business or personal relationship with a member of company management or a company group (such as the pension plan), proponent of a proxy proposal, a participant in a proxy contest or a candidate for corporate office.

AHB will also consider that it has a Material Conflict of Interest where either:

- AHB has Voting Authority from all accounts to make a Voting Decision with respect to securities in the aggregate constituting over 10 percent (10%) of the outstanding voting securities of the company; or
- In the case of a particular client, the securities for which the proxy is solicited constitute over 10 percent (10%) of the securities held by that client in the client's Voting Authority Account.

The CCO determines whether there is enough uncertainty about the best interests of the client that the client should be contacted in advance for approval. If mitigating circumstances and/or conflicts of interest arise, the circumstances or conflicts will be discussed by AHB's investment committee. This investment committee may inform the client or may forward the proxy material to the client if it deems it necessary for review. Factors to consider would include the stated investment objectives of the client and the nature of the conflict of interest.

**Books and Records**

Clients may obtain information from us about how we voted any proxies on behalf of their account(s) upon request.

**Proxy Voting Policies and Procedures**

Clients may obtain a copy of our complete proxy voting policies and procedures upon request.

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**Item 18 [A, B, C]****Financial Information****Financial Condition**

AHB does not have any financial commitment that impairs the firm from meeting contractual commitments to clients and has never been the subject of a bankruptcy proceeding. A balance sheet is not required to be provided because AHB does not serve as a custodian for client funds or securities, and does not require prepayment of fees of more than \$1,200 per client, six months or more in advance.

Item 5 [A]

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Appendix A

Annual Wrap Fee Program Fees:

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<u>Portfolio Size</u>	<u>Fixed</u> <u>Income</u> <u>(100%)</u>	<u>*Custom</u> <u>Balanced</u> <u>(50%/50%)</u>	<u>Core</u> <u>Equity</u> <u>(100%)</u>	<u>Aggressive</u> <u>Equity</u> <u>(100%)</u>
\$ 500,000 - \$ 999,999	0.40%	0.75%	1.00%	1.25%
\$ 1,000,000 - \$ 9,999,999	0.35%	0.65%	0.90%	1.25%
\$ 10,000,000 +	0.30%	0.55%	0.75%	1.25%

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\* Custom Balanced portfolios with equities representing less than 50% of the total assets are subject to lesser advisory fees while portfolios with equities representing more than 50% of the total assets are subject to greater advisory fees depending upon size, asset allocation and complexity of the portfolio.