

Item 1



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

**March 2018**

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 (“SEC”), 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). Abner Herrman & Brock LLC is an SEC registered investment advisor. Registration of an Investment Adviser with the SEC or any state securities authority does not imply a certain level of skill or training.

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

We may update the Brochure at any time but are required to promptly send clients a copy of certain material changes to our disclosures upon doing so. In addition, we will deliver an annual summary of material changes that occur to the Brochure along with an offer to provide you with a current version.

This Form ADV, Part 2A (Brochure) contains no material changes since the last annual update filed on March 2017.

**Full Brochure Available**

If 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 and is an investment advisor registered with the Securities and Exchange Commission. The firm provides investment management services on a discretionary and a non-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 National Financial Services LLC (“NFS”), AHB’s clearing broker. Abner, Herrman & Brock LLC is principally owned by the Abner Trust.

#### **Types of Advisory Services**

AHB offers investment management services to Private Investors Accounts. We also provide investment services for wrap fee programs sponsored by other firms. Additionally, AHB is a Model Portfolio Vendor and provides consulting services.

#### **Private Investors Accounts**

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 common stocks of large capitalization companies. Fixed income portfolios are generally 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.

AHB’s approach to investing is based on internal research which drives the investment process. We believe that our team of experienced professionals allows us to find unique investment opportunities. Using this research, 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 are 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 reasonable restrictions on investing in certain securities or types of securities. We review the restrictions on a case by case basis and implement them when feasible.

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. 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/Separately Managed Accounts programs**

AHB, as an investment adviser, participates in certain “wrap fee programs” (also known as “Separately Managed Accounts” programs or “SMA” programs to clients other than Private Investors Accounts. In such programs, a client pays a program sponsor a single “wrap fee” for

advisory services, certain brokerage services, monitoring of the investment adviser's performance and custodial services, or some combination of these or other services. AHB provides its investment management services to the wrap fee 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 sponsors of the wrap fee programs. In most cases, AHB is acts under a sub-advisory agreement with the sponsor of the SMA programs.

#### **Advisor to Wrap Fee/Model Portfolio Vendor**

AHB has relationships with other financial intermediaries in which AHB designs, monitors and updates one or more model portfolios to meet the objectives set forth by the clients of such financial intermediaries. These portfolios are managed with the same investment philosophies and strategies 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 program sponsor are used in their sole discretion, as to the extent to which they 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 assets in the Model Portfolio Accounts managed using the Model Portfolio at the beginning of the quarter. This service is not tailored to the specific needs of the individual client because AHB has no knowledge of the individual client's financial situation. The financial intermediary is responsible for determining the suitability and objectives of their clients as well as all trading and any interactions with their clients. The model portfolios are not considered AHB assets under management ("AUM") 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, 2017, Abner, Herrman & Brock, LLC manages approximately \$1.969 billion in assets for approximately 1570 clients. Approximately \$1.937 billion is managed on a discretionary basis, and \$32 million are non-discretionary.

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### **Item 5 [A, B, C, D, E]**

#### **Fees and Compensation**

##### **Fees**

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

## **Private Investors Accounts**

### *Investment Advisory Fees*

Our Private Investors Accounts wrap fees are based upon percentage of assets under management and generally range from .35% to 1.25%. The investment advisory fees are negotiable and differ from one Client to another based on certain criteria such as amount of assets, style, customization and investment strategy including asset allocation.

Clients who select the AHB's Wrap Fee Program receive investment management, brokerage and custodial services for an all-inclusive 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 which 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. AHB client investment advisory fees are invoiced quarterly, in advance, for investment advisory services that will be rendered during such quarter. The specific fee a client will pay is set forth in the Investment Advisory Agreement, or as indicated in any amendment thereof including letters. 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 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 the 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 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 NFS, 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 NFS 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 SMA Programs**

The Wrap Fee/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.

The Sponsor’s Program Brochure generally contains information on minimum account sizes and fees payable to the Sponsor and participating investment managers, such as AHB. Accordingly, AHB’s minimum account size and fees may vary from program to program or within a single program based on, among other things, the investment strategies offered by the program. AHB’s fees for managing Wrap Fee/SMA program accounts may be less than the fees it receives for managing similar accounts outside of a Wrap Fee/SMA program. However, clients should be aware that, as discussed above, the total fees and expenses associated with an Wrap/SMA program may exceed those which might be available if the services were acquired separately.

Clients should contact their Wrap Fee/SMA program Sponsor for more information on the fees payable to AHB in connection with such programs. AHB fees are charged in advance on a monthly or a quarterly basis depending on the agreement.

AHB utilizes step out trades for fixed income securities only. There are no commissions associated with these trades. AHB does not have any soft dollar arrangements and receives no soft dollar compensation for these trades. Step out trades help us seek best execution for the client because it provides the best competitive price for a particular bond in the market as well as offering an increase in the inventory of bonds.

### **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 a single 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 billed in advance on a quarterly basis and paid by the sponsor to AHB.

### **Consulting and Administrative 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.

Clients pay a flat rate-quarterly fee determined by agreement for Administrative Services that is pre-determined by contract depending on depth, size and complexity of execution/trade services, bookkeeping, facility use and technology services and office supplies that are needed.



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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 Investors Accounts minimum account size is \$500,000. AHB has the discretion to waive the account minimum when deemed appropriate. 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 assess 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 perform 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. Our 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, in an effort to identify 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 on which 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. 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. The 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**

The Taxable Bond strategy is 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

The Municipal Bond strategy 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. The Municipal Bond strategy may include the purchase of premium priced bonds when the interest rate environment is advantageous to do so. Portfolios that distribute interest income may be subject to an impairment of principal if they exceed the expected return of principal upon maturity of the premium bonds. 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.

- **Credit/Default Risk:** Debt issuers and other counterparties of fixed income securities or instruments may default on their obligation to pay interest, repay principal or make a margin payment, or default on any other obligation.
- **Margin Risk:** Generally, AHB does not utilize margin as part of its investment strategies. However clients who choose margin on their own discretion should be aware of the inherent risks associated with it. Borrowing to purchase stocks increases a client's leverage allowing the client to purchase more stock than the client could purchase for cash. However, borrowing increases levels of market risk which may cause a greater drop in an investment and margin loans must be repaid regardless of the underlying value of the securities purchased. Margin loans must be repaid regardless of the underlying value of the securities purchased. Margin accounts also have minimum maintenance requirements. If the equity in a margin account falls below the minimum amount, the broker-dealer will issue a maintenance call requiring an additional deposit in cash or acceptable collateral. There is no extension of time on a margin call. Failure to meet a margin call may force a client to sell some or all securities in an account which may be sold without the client's approval.

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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 a 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 NFS 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 such, 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 Private Clients**

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 their broker dealer, the AHB Investment Advisory Agreement requires that its clients specifically consent to and designate a particular broker (NFS) 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 and reliability
- 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.

#### **Sub-advisory Wrap Fee /SMA Clients**

AHB will direct brokerage to a particular broker if it receives written instructions to do so, for example from its advisory clients in Wrap Fee/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 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 Wrap Fee/SMA program nor is AHB affiliated in any way with such brokers.

For fixed income securities, AHB may use "step-out" trades which it believes is in the best interest for best execution. There are no commissions associated with these transactions and AHB does not receive any soft dollar benefits as a result of these transactions.

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, there will be an agreement disclosing to the client the fee arrangements.

### **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 NFS, 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*

AHB uses a trade rotation to determine 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 applicable 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 made known to AHB.

### **Regular Reports**

AHB Private Investors Accounts receive written quarterly reports. The written quarterly update generally includes an Investment Outlook, portfolio holdings, performance for the period, year to date and since inception and the portfolio's stated investment objectives. For 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 by the financial advisor who referred the account. 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**

Any investment adviser having custody or access to customer funds or securities must comply with certain rules and regulations designed to protect the clients' assets. Rule 206(4)-2 of the Investment Advisors Act of 1940 details strict requirements governing investment advisers that have custody over client securities or funds. With written authorization to do so, we directly debit your account(s) for the payment of our advisory fees. This ability to deduct our advisory fees from your accounts causes our firm to exercise limited custody over your funds or securities. Because

the ability to deduct fees from client accounts is the only form of custody we practice, AHB is not subject to the full custody requirements such as an annual surprise examination conducted by SEC, independent internal controls report, etc.

AHB does not have physical custody of any client funds and/or securities.. 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 the client's 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 of the program 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 Private Investors Accounts 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 Chief Compliance Officer ("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.