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

**This brochure provides information about the qualifications and business practices of Aletheia Research and Management, Inc. If you have any questions about the contents of this brochure, please contact us at (310)899-0800. 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 Aletheia Research and Management, Inc. is also available on the SEC's website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).**

## **SUMMARY OF MATERIAL CHANGES**

Aletheia Research and Management, Inc.'s Brochure was updated on 3/30/12. The only material change to the Brochure was the departure of Steve Olson, who served as Aletheia's President (and Chief Legal Officer). Mr. Olson joined the United States Department of Commerce as Deputy Chief of Staff and Senior Advisor to Secretary John Bryson during the fourth quarter of 2012. The Department of Commerce announced this presidential appointment in a press release in January of 2012. The link to the press release is available on the Firm's website.

Clients may request our Brochure at any time by contacting us at 310-899-0800, sending an e-mail to [clientservice@aletheiaresearch.com](mailto:clientservice@aletheiaresearch.com), or submitting a written request to: Aletheia Client Service, 100 Wilshire Blvd, Suite 1900, Santa Monica, CA 90401.

As noted above, additional information about Aletheia Research and Management, Inc. is also available on the SEC's website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov). The searchable IARD/CRD number for the Firm is 107877.

## Table of Contents

<b>Item 1. Cover Page.....</b>	<b>1</b>
<b>Item 2. Material Changes.....</b>	<b>2</b>
<b>Item 3. Table of Contents.....</b>	<b>3</b>
<b>Item 4. Description of Advisory Business.....</b>	<b>5</b>
Identify Principal Owners.....	5
Assets Under Management.....	6
<b>Item 5. Fees and Compensation.....</b>	<b>6</b>
<b>Item 6. Performance-Based Fees and Side-By-Side Management.....</b>	<b>7</b>
<b>Item 7. Types of Clients.....</b>	<b>8</b>
<b>Item 8. Methods of Analysis, Investment Strategies and Risk of Loss .....</b>	<b>8</b>
<b>Item 9. Disciplinary Information .....</b>	<b>8</b>
<b>Item 10. Other Financial Industry Activities and Affiliations.....</b>	<b>10</b>
<b>Item 11. Code of Ethics, Participation or Interest in Client Transactions and Personal Trading.....</b>	<b>16</b>
<b>Item 12. Brokerage Practices.....</b>	<b>16</b>
Best Execution.....	16
Soft Dollars.....	16
Trade Aggregation.....	16
Cross Trading.....	17
Trade Allocation.....	17
<b>Item 13. Review of Accounts.....</b>	<b>18</b>
<b>Item 14. Client Referrals and Other Compensation.....</b>	<b>18</b>
<b>Item 15. Custody.....</b>	<b>18</b>
<b>Item 16. Investment Discretion.....</b>	<b>18</b>
<b>Item 17. Voting Client Securities.....</b>	<b>19</b>

**Item 18. Financial Information.....19**

**Item 19. Requirements for State Registered Advisers.....19**

#### **Item 4. Advisory Business**

Aletheia Research and Management, Inc. (“Aletheia” or “ARMI” or the “Firm”) is a California “C” corporation with common shareholders and is independently owned. The Firm is registered as an investment adviser with the Securities and Exchange Commission. Such registration does not imply any level of skill or training.

In 1997, Peter J. Eichler, Jr., Chairman, CEO and CIO of the Firm, formed Aletheia with a crystallized investment philosophy and an investment process based on the research methods he developed over the course of his career.

Effective 12/31/11, the Firm managed over 4.2 billion in assets on behalf of its clients. The Firm primarily manages institutional accounts, including pension plans, endowments, and foundations (“Institutional Clients”) as well as high net worth individuals (see Item 7). Aletheia’s investment advisory services may be accessed in the following ways: (i) through separately managed accounts; (ii) as participants in WRAP programs for which Aletheia serves as the sub-adviser (“WRAP Clients”); or, (iii) by becoming a limited partner in one of the Firm’s private hedge funds (the Aletheia Insider Index, LP and Insider Index II, LP) which are managed by Aletheia (“Private Fund Clients”) and of which Aletheia is the General Partner.

Aletheia has a subsidiary broker-dealer, Aletheia Securities, Inc. (“ASI”) which primarily provides brokerage services to Aletheia’s direct high net worth clients (“Direct High Net Worth Clients”). ASI is not a custodian and does not directly hold any client assets. As an accommodation to certain Direct High Net Worth Clients who do not have their own custodians, ASI would act as broker and have such client account assets held at National Financial Services, LLC (“NFS”), a division of Fidelity Investments. NFS performs some execution, custody, and back office clearing on behalf of ASI. Such clients shall be referred to as (“ARMI/ASI Clients”). ARMI/ASI client accounts represent less than 1% of the Firm’s assets under management.

Aletheia is in the process of forming a passive real estate entity called Aletheia Real Property, LLC (“ARP”). Prior to ARP becoming an active legal entity, this Form ADV Part 2A will be revised to reflect ARP’s intended activity. Aletheia is also the General Partner for two private hedge funds, Aletheia Insider Index, LP and Aletheia Insider Index II, LP (the “Private Funds”).

Aletheia is headquartered in Santa Monica, CA.

Peter J. Eichler, Jr., Chairman, CEO, and CIO has a controlling interest and owns over 25% of the Firm.\*

Aletheia provides investment advisory services in equity strategies including growth, value, and international growth. The Firm has several other products which are not actively marketed at this time including, but not limited to, the following: Aletheia Income, 100 Insider Index, Balanced, Intermediate Cash Management, and International Income. The Firm also manages two privately offered funds named the Aletheia Insider Index, LP and Aletheia Insider Index II, LP. The Private Funds are designed to be market neutral by investing the portfolios in 100 long equity names and 50 short equity names. A small number of ARMI/ASI clients are managed as custom accounts. Custom accounts are those client accounts which are not fully

invested in the Firm's investment products noted above. A small portion of the Firm's custom accounts trade options as part of their overall investment strategy.

The Firm does not typically customize portfolios for Clients. However, Clients may request that reasonable restrictions be placed on their portfolios.

Apart from Client-specific guidelines, all Client accounts within a particular strategy are similarly managed from an investment perspective and are covered by the Firm's trade allocation policy.

\*Roger Peikin, a former employee, owns over 25% of the voting shares of the Firm's stock.

As of December 31, 2011, Aletheia managed:

Discretionary Assets: \$3,550,094,827.

Non-Discretionary Assets: \$683,203,895.

## **Item 5. Fees and Compensation**

For investment advisory services, Aletheia's fees are typically based on the value of assets under management. Standard fees are billed on a quarterly basis, generally in advance. Such annual fees would typically range between 0.5% and 1.0% of assets. If a client pays quarterly in advance and terminates the relationship prior to the end of the billing period, the client would receive a pro-rated refund for the period.

The annual fees are typically tiered as follows (using a standard 1% beginning fee):

On the first US \$ 10M	1.00%
On the next US \$ 15M	.75%
On the next US \$ 25M	.65%
On the next US \$ 50M	.55%
On the next US \$100M	.50%

Aletheia's Private Funds have a base investment management fee of 1% and a performance fee of 20%. At this time, Aletheia does not have any other performance fee arrangements in place.

Aletheia's fees may be negotiated.

Clients have the option to be billed or to authorize Aletheia, through the client's custodian, to deduct fees directly from the account assets. Apart from any investment management fees clients pay to Aletheia, clients incur brokerage fees and transactions costs and separate custody costs to the respective broker and/or custodian. Brokers or custodians would have schedules available to detail such fees/charges. See also Item 12 which discusses brokerage practices.

For WRAP programs for which Aletheia serves as a sub-adviser, Aletheia would receive a portion of the investment management fee for its investment advisory services.

Beginning in February, 2012, the Private Funds are executed, cleared and held in custody by J.P. Morgan Clearing Corp. through an introduction by SL Reed & Company (“SLR”). A representative broker for the Funds at SLR is a family relative of a member of senior management at Aletheia. The representative broker will receive commission for SLR’s services. The fees paid by the Funds are generally comparable to those paid to the Funds’ former prime broker.

For the Private Fund Clients, the Private Funds (Aletheia Insider Index, LP and Aletheia Insider Index II, LP) pay their own direct operating expenses, such as ongoing legal and accounting fees and expenses incurred in connection with the purchase, sale or carrying of any security or investment (including brokerage commissions, interest expenses and custody and transfer fees). The General Partner (Aletheia) pays all indirect operating expenses of the Private Funds, such as rent, costs of administrative personnel, database subscriptions, research expenses, travel and entertainment costs, communications, and equipment expenses. For reimbursement of certain of these expenses, Aletheia receives an annual management fee at the rate of 1% of the capital account balance of each Limited Partner, payable on a monthly basis in advance. All Private Fund expenses noted above would be shared by the Limited Partners (Private Fund Clients) on a pro-rata basis. See also Item 6.

Almost all ARMI/ASI clients enter into investment management agreements with ARMI. The trades for the ARMI/ASI clients managed in ARMI’s investment strategies are subject to the Firm’s trade allocation and best execution policies. ARMI/ASI clients are traded primarily through ASI and ASI receives commissions in connection with all transactions for which it serves as introducing broker. ASI’s commission schedule is negotiable and, on an exception basis, such commission charges may be waived. Aletheia’s advisory fees are not discounted to offset any commissions paid to ASI.

ASI does not have separate employees. Certain ARMI employees perform trades and other operational tasks on behalf of ASI. All such employees are governed by applicable FINRA rules and requirements as appropriate to oversee the responsibilities they perform. The registered representatives of ASI are also employees of Aletheia and may, on occasion, receive commissions from ASI. Remaining ASI commissions flow back to its owner, ARMI.

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

Aletheia’s clients do not pay performance fees at this time unless the clients are limited partners in the Firm’s Private Funds. The Firm serves as investment manager and general partner for these funds which represent less than 1% of the Firm’s assets under management. These funds have a base fee of 1% and a 20% performance fee for accounts subject to a high water mark. See also the Firm’s trade allocation policy which is discussed in Item 12.

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

Aletheia provides investment advisory services to its clients, which primarily include institutions, pension funds, endowments, and foundations, as well as high net worth individuals. The minimum opening value of new accounts is generally \$1,000,000. Aletheia may, at its discretion, accept accounts with a value of less than \$1,000,000 depending on the nature of the account, the potential for future additions to the account, and other factors. The WRAP programs under the Firm's management typically have a lower minimum account size.

The minimum investment for a Private Fund Client is \$500,000. This minimum may be waived by the General Partner in its sole discretion. Each investor in the Aletheia Insider Index, LP is required to represent that he is a "qualified client" as provided in Rule 205-3 of the Advisers Act. Each investor in the Aletheia Insider Index II, LP is required to represent that he is a "qualified purchaser" as defined in Section 3(c)(7) of the 1940 Act.

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

Aletheia believes that correct investing and ultimate investment success depends upon discovering what is knowable about corporations and their secular earnings prospects and applying this knowledge astutely. Aletheia does not use Wall Street research nor does it rely on "guidance" from either corporate investor/public relations personnel or public relations personnel. Rather, the Firm employs hard data, primarily public filings by corporate insiders and corporate actions, forensic analysis of balance sheets and cash flows, and non-biased industry research, to guide its investments.

Aletheia seeks to minimize risk through diversified portfolios that consist of large cap, well capitalized companies. Aletheia has placed limits on individual position sizes and maintains both industry and sector allocations within portfolios.

Given that the portfolios consist of publicly traded equities, the primary risk for Aletheia Clients is market risk.

The Private Funds have unique risks which are discussed in their offering documents.

## **Item 9. Disciplinary Information**

On May 9, 2011, the Securities and Exchange Commission ("SEC" or "Commission") entered an administrative order ("Order") against Aletheia and Peter J. Eichler, Jr. ("Eichler"), Aletheia's CEO and a "management person" of Aletheia, which found them to have been involved in violations of the Investment Advisers Act of 1940, as amended ("Advisers Act"). Among other things, the Order imposed civil money penalties of \$200,000 and \$100,000 against Aletheia and Eichler, respectively. Section III of the Order, which describes the allegations against Aletheia and Eichler and certain undertakings required pursuant to the Order, appears below. The entire Order will be posted on the homepage of Aletheia's website (Aletheiaresearch.com). Sections I through III read as follows:



## **I.**

The Securities and Exchange Commission (“Commission”) deems it appropriate and in the public interest that public administrative and cease-and-desist proceedings be, and hereby are, instituted pursuant to Section 15(b) of the Securities Exchange Act of 1934 (“Exchange Act”) and Sections 203(e) and 203(k) of the Investment Advisers Act of 1940 (“Advisers Act”) against Aletheia Research and Management, Inc. (“Aletheia”) and Sections 203(f) and 203(k) of the Advisers Act against Peter J. Eichler, Jr. (“Eichler”) and Roger B. Peikin (“Peikin”) (Aletheia, Peikin and Eichler referred to as collectively as “Respondents”).

## **II.**

In anticipation of the institution of these proceedings, Respondents have submitted Offers of Settlement (the “Offers”) which the Commission has determined to accept. Solely for the purpose of these proceedings and any other proceedings brought by or on behalf of the Commission, or to which the Commission is a party, and without admitting or denying the findings herein, except as to the Commission’s jurisdiction over them and the subject matter of these proceedings, which are admitted, Respondents consent to the entry of this Order Instituting Administrative and Cease-and-Desist Proceedings, Pursuant to Section 15(b) of the Securities Exchange Act of 1934 and Sections 203(e), 203(f) and 203(k) of the Investment Advisers Act of 1940, Making Findings, and Imposing Remedial Sanctions and A Cease-and-Desist Order (“Order”), as set forth below.

## **III.**

On the basis of this Order and Respondents’ Offers, the Commission finds that:

### **SUMMARY**

These proceedings concern violations of the Investment Advisers Act by a registered investment adviser, Aletheia, and its two principals, Eichler and Peikin:

From 2006 to 2008, Aletheia disseminated proposals to client and potential clients that failed to disclose requested information regarding prior Commission examinations, which Peikin reviewed.

Aletheia and Peikin failed to implement written procedures reasonably designed to prevent violations of the Advisers Act and rules thereunder regarding responding to requests for proposals from prospective clients.

For fiscal years 2003 through 2008, Aletheia, Eichler, and Peikin failed to have an annual surprise examination of Aletheia’s hedge funds and to provide the hedge fund investors with quarterly account statements, or provide the hedge fund investors with timely annual audit reports.

From 2005 through 2009, Aletheia, Eichler, and Peikin failed to make and/or keep copies of the employees’ acknowledgments indicating the receipt of Aletheia’s code of ethics even after receiving 2005 and 2008 deficiency letters notifying Aletheia of that requirement.

## **RESPONDENTS**

1. Aletheia Research and Management, Inc. (“Aletheia”) is a California corporation with its principal place of business in Santa Monica, California. Aletheia (File No. 801-55761) is registered with the Commission as an investment adviser and its wholly-owned subsidiary Aletheia Securities, Inc. (“ASI”) is a registered broker-dealer. As of December 31, 2009, it had over \$7.1 billion in assets under management.

2. Peter J. Eichler, Jr. (“Eichler”) resides in Pacific Palisades, California. Eichler is Aletheia’s co-founder, chairman, CEO, president, Chief Investment Officer (“CIO”), director, and largest shareholder. Eichler is also an officer, director and control person of ASI. He received a B.S. degree from Santa Clara University. Before forming Aletheia, he worked at a number of large brokerage firms. Eichler holds series 7, 24, 63 and 65 securities licenses.

3. Roger B. Peikin (“Peikin”) resides in Santa Monica, California. Peikin is Aletheia’s co-founder, director, and second largest shareholder. Until February 2010, he was also Aletheia’s CCO, and until July 2010, he was its CFO, executive vice president and general counsel. Until July 2010, Peikin was also an officer and control person of ASI. He received his JD from Southwestern University School of Law in 1991 and has been admitted to practice law in California since 1991. Peikin holds a series 27 securities licenses.

## **FACTS**

### *Background*

4. As of December 31, 2009, Aletheia managed over \$7.1 billion in assets for more than 5,400 clients consisting of retail accounts, institutional clients, and two private hedge funds. During the relevant period, Eichler was the CEO and CIO of Aletheia and managed all aspects of Aletheia and was solely responsible for all investment decisions. Peikin was an executive vice president, general counsel, CCO and CFO of Aletheia and was primarily responsible for directing Aletheia’s backroom operations. Peikin reported to Eichler.

### **Aletheia’s Response To Requests For Proposals**

5. As part of their due diligence process for selecting or retaining investment advisers, clients and prospective clients sent Aletheia questionnaires called Request for Proposals (“RFPs”) that requested certain information about Aletheia, including information about its background and investment performance. In 10 RFPs between 2005 and 2008, clients and prospective clients asked whether Aletheia had had any “findings,” “deficiencies,” or “corrective actions required” in connection with the SEC’s prior examination. Some of the RFPs also requested a copy of the SEC’s deficiency letter and Aletheia’s reply. In response, Aletheia either: (1) stated that “there were no significant findings” in its most recent SEC examination; (2) did not answer the question; (3) referred to its broker-dealer (ASI) when answering the question in the negative and/or (4) provided a copy of the deficiency letter and reply for ASI (rather than for Aletheia).

6. Aletheia's responses were incorrect. In fact, as part of the 2005 examination, the staff sent Aletheia a seven page letter dated May 13, 2005, reporting six deficiencies found during the exam.

7. Peikin knew or should have known of the 2005 Aletheia exam and deficiencies. He received the deficiency letter and signed Aletheia's reply letter. Peikin participated in the RFP process by reviewing Aletheia's responses to the RFPs. Peikin should have, at a minimum, provided the SEC's deficiency letter in response to the RFPs.

8. As a result of the conduct described above, Aletheia willfully committed violations<sup>1</sup> of, and Peikin willfully aided and abetted and caused violations of, Section 206(2) of the Advisers Act, which makes it unlawful for an adviser to engage in any transaction, practice or course of business that operates as a fraud or deceit upon any client.

#### **Failure to Implement Existing Procedures in Aletheia's Compliance Manual Relating to Responses to the RFPs**

9. Between 2005 and 2008, Aletheia made a concerted effort to attract institutional clients in order to increase the assets that it managed by soliciting prospective clients through its responses to the RFPs. As a direct result, Aletheia's assets under management (and associated management fees) increased from \$225 million in 2005 to over \$9 billion in 2008. Aletheia had a compliance manual that required Peikin, its CCO, to review the response to the RFPs for any misleading statement. However, Peikin failed to adequately review the RFP responses by failing to correct the misleading statements about the prior SEC examination.

10. As a result of the conduct described above, Aletheia willfully committed violations of, and Peikin willfully aided and abetted and caused violations of, Section 206(4) of the Advisers Act, and Rule 206(4)-7 promulgated thereunder, which requires that an investment adviser registered with the Commission to adopt and implement written policies and procedures reasonable designed to prevent violation of the Advisers Act and rules adopted under the Adviser Act.

#### **Late Hedge Fund Examinations**

11. Aletheia is the general partner and adviser for two private hedge funds, the Aletheia Insider Index, LP ("Index I") and the Aletheia Insider Index II, LP ("Index II"), which had total assets of \$75 million as of December 31, 2009. As a registered investment adviser, Aletheia was required by the Advisers Act and rules thereunder to send quarterly account statements to the limited partners and to ensure that its independent

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<sup>1</sup> A willful violation of the securities laws means merely "that the person charged with the duty knows what he is doing." *Wonsover v. SEC*, 205 F.3d 408, 414 (D.C. Cir. 2000) (quoting *Hughes v. SEC*, 174 F.2d 969, 977 (D.C. Cir. 1949)). There is no requirement that the actor 'also be aware that he is violating one of the Rules or Acts.'" *Id.* (quoting *Gearhart & Otis, Inc. v. SEC*, 348 F.2d 798, 803 (D.C. Cir. 1965)).

accountant conducted an unannounced (i.e., surprise ) annual examination to verify the partnerships' funds and securities. Under an exception and in lieu of these requirements, Aletheia was permitted to complete and distribute to each limited partner an annual audited financial statement within 120 days of the end of the fund's fiscal year, which was December 31.

12. In response to these Advisers Act requirements, Aletheia opted to distribute annual audits to the funds' investors. However, from 2003 through 2008, Aletheia failed to comply with the Advisers Act provisions because it distributed the funds' audited financial statements to the investors from 1½ to 14 months after they were due.<sup>2</sup>

13. Aletheia's late distribution of the funds' audited financial statements resulted from many factors, including Aletheia's failure to timely pay the auditors, not having the funds' books and records properly organized for its auditors, problems with its portfolio management software, and Eichler's and Peikin's desire to complete other Aletheia audits or reviews first.

14. Eichler and Peikin were aware of the delays related to each audit. In fact, in some instances they directly caused the delays. For example, Eichler and Peikin jointly were responsible for signing the checks to pay the audit bills that were past due. However, in at least one instance, Eichler and Peikin simply did not jointly sign the check to pay the auditor.

15. As a result of the conduct described above, Aletheia willfully committed violations of, and Eichler and Peikin willfully aided and abetted and caused violations of, Section 206(4) of the Advisers Act, and Rule 206(4)-2(a) promulgated thereunder, which requires that an investment adviser registered with the Commission maintain each client's funds in bank accounts containing only those client funds, notify its clients about the place and manner in which their funds are maintained, reasonably believe that each client has received at least a quarterly account statement and have client funds and securities verified by an independent public accountant at least once a year without prior notice to the investment adviser.

### **Books and Records – Failure to Make and Keep Acknowledgments**

16. As required by the Advisers Act rules, Aletheia had a code of ethics, which was included in its compliance manual, which required Aletheia to provide the code to all employees and to have each employee sign an acknowledgment that he or she had received the code. The Advisers Act rules also required Aletheia to maintain all of the signed acknowledgments for five years. However, from the 2005 through 2007, Aletheia did not make and/or maintain any of the required acknowledgment pages and, for 2008 and 2009, Aletheia only made and/or maintained the required acknowledgement pages for just two employees. Between 2005 and 2009, Aletheia had between 14 and 28 employees.

17. As Aletheia's CCO, Peikin was responsible for receiving and maintaining the acknowledgments. Moreover, Aletheia, Peikin and Eichler were advised in the 2005 deficiency letter that not a single Aletheia

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<sup>2</sup> Index I's first audit was for 2003; Index II first audit was for 2006

employee had completed an acknowledgment of receipt. Yet, even though there was sufficient time in 2005 to have the acknowledgements signed and retained, they did not. In 2008, Aletheia was once again made aware of the need to make and maintain copies of the acknowledgment page by the 2008 deficiency letter. Yet, even after receiving a second deficiency letter in four years, Aletheia, Eichler and Peikin failed to make and/or maintain all of the acknowledgment pages for 2008 and 2009.

18. As a result of the conduct described above, Aletheia willfully committed violations of, and Eichler and Peikin willfully aided and abetted and caused violations of, Section 204(a) of the Advisers Act, and Rule 204-2(a)(12) promulgated thereunder, which require that investment advisers registered with the Commission maintain a record of all written acknowledgments as required by Rule 204A-1(a)(5) for each person who is currently, or within the past five years was, a supervised person of the investment adviser.

### **REMEDIAL EFFORTS**

19. In determining to accept the Offer, the Commission considered remedial acts undertaken by Respondents and cooperation afforded the Commission staff. Specifically, during the Commission's staff investigation, Aletheia hired an independent consultant (the "Independent Consultant") to evaluate its compliance practices and procedures, and Aletheia is implementing its recommendations.

### **UNDERTAKINGS**

20. Within thirty (30) days of the issuance of this Order, Respondent Aletheia undertakes to mail a copy of the Form ADV which incorporates the paragraphs contained in Section III of this Order to each of Aletheia's existing clients, and specify that the entire Order will be posted on the homepage of Aletheia's website. Within thirty (30) days of the issuance of this Order, Respondent Aletheia also undertakes to post a copy of this Order on the homepage of Aletheia's website and maintain this copy of the Order on Aletheia's website for a period of six (6) months. Respondent Aletheia shall also provide a copy of the Form ADV to any new client that engages Aletheia or Eichler within one (1) year of the date of this Order.

21. Respondent Aletheia shall comply with the following undertakings:

a. To continue to retain the Independent Consultant, at its expense. Aletheia shall require the Independent Consultant to conduct any additional review of Aletheia's compliance policies and procedures that the Independent Consultant deems appropriate with respect to Sections 204(a), 206(2) and 206(4) of the Advisers Act and Rules 204-2(a)(12), 206(4)-2(a) and 204-(7) thereunder including:

(1) complying with the record retention requirements relating to written acknowledgements;

(2) ensuring that the responses to the RFPs do not contain any material misrepresentations or omissions;

(3) providing quarterly account statements to the limited partners; and hire an independent public accountant to conduct a surprise examination of the adviser's records annually to verify all the clients' funds and securities, or in lieu of these requirements, complying with any statutory

exceptions;

(4) adopt and implement written policies and procedures reasonably designed to prevent violations of the Advisers Act, including implementing procedures related to the responses to RFPs; and

(5) complying with such other policies or procedures as are reasonably expected to prevent and detect the types of violations of the federal securities laws involving Aletheia's actions described in Section III;

b. At the end of that review, which in no event shall be more than three (3) months after the date of the issuance of this Order, Aletheia shall require the Independent Consultant to submit to Aletheia and to the Commission's Los Angeles Regional Office an Initial Report. The Initial Report shall describe the review performed, the conclusions reached and shall include any recommendations deemed necessary to make the policies and procedures adequate. Aletheia may suggest an alternative procedure designed to achieve the same objective or purpose as that of the recommendation of the Independent Consultant. The Independent Consultant shall evaluate Aletheia's proposed alternative procedure. Aletheia, however, shall abide by the Independent Consultant's final recommendation;

c. Within six (6) months of the date of this Order, Aletheia shall, in writing, advise the Independent Consultant and the Commission's Los Angeles Regional Office of the recommendations it is adopting;

d. Within nine (9) months of the date of this Order, Aletheia shall require the Independent Consultant to complete its review and submit a written final report to Aletheia and the Commission's Los Angeles Regional Office. The Final Report shall describe the review made of Aletheia's compliance policies and procedures relating to Sections 204(a), 206(2) and 206(4) of the Advisers Act and Rules 204-2(a)(12), 206(4)-2(a) and 204-(7) thereunder; set forth conclusions and recommendations and any proposals by Aletheia; and describe how Aletheia is implementing those recommendations and proposals;

e. Aletheia shall take all necessary and appropriate steps to adopt and implement all recommendations contained in the Independent Consultant's Final Report;

f. No later than three (3) months after the date of the Independent Consultant's final report, Aletheia shall submit to the Commission's Los Angeles Regional Office an affidavit setting forth the details of its efforts to implement the Independent Consultant's recommendations as set forth in the Final Report and its compliance with them;

g. For good cause shown and upon timely application by the Independent Consultant or Aletheia, the Commission's staff may extend any of the deadlines set forth in these undertakings; and

h. Aletheia shall require the Independent Consultant to enter into an agreement that provides that for

the period of engagement and for a period of two years from completion of the engagement, the Independent Consultant shall not enter into any employment, consultant, attorney-client, auditing or other professional relationship with Aletheia, or any of its present or former affiliates, directors, officers, employees, or agents acting in their capacity. The agreement will also provide that the Independent Consultant will require that any firm with which he/she is affiliated or of which he/she is a member, and any person engaged to assist the Independent Consultant in performance of his/her duties under this Order shall not, without prior written consent of the Los Angeles Regional Office, enter into any employment, consultant, attorney-client, auditing or other professional relationship with Aletheia, or any of its present or former affiliates, directors, officers, employees, or agents acting in their capacity as such for the period of the engagement and for a period of two years after the engagement.

22. Aletheia shall certify, in writing, compliance with the undertaking(s) set forth above. The certification shall identify the undertaking(s), provide written evidence of compliance in the form of a narrative, and be supported by exhibits sufficient to demonstrate compliance. The Commission's staff may make reasonable requests for further evidence of compliance, and Respondent agrees to provide such evidence. The certification and supporting material shall be submitted to John McCoy, Associate Director, Division of Enforcement, Securities and Exchange Commission, 5670 Wilshire Blvd., Ste. 1100, Los Angeles, CA 90036, with a copy to the Office of Chief Counsel of the Enforcement Division, no later than sixty (60) days from the date of the completion of the undertakings.

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

The Firm's affiliate, Aletheia Securities, Inc. ("ASI"), is a registered broker dealer.

Several members of Aletheia's management team hold broker dealer licenses through ASI including the Chief Executive Officer, Director of Research, and the Senior Vice President of Trading.

See discussion on ASI in Item 5

Aletheia serves as the General Partner for the Private Funds (See Item 6).

ASI also operates a trade error account. Client accounts may be reimbursed by the ASI error account to correct an error if the error is caused by ASI or Aletheia. All trade errors are monitored by the Firm's compliance group in accordance with its trade error policy.

ARMI is affiliated with a newly created entity called Empyrean Investments, LLC ("Empyrean"). Empyrean intends to serve as an adviser to mutual funds which are expected to be available for offering during the second to third quarter of 2012. Please refer to the Form ADV of Empyrean for further details on the affiliated adviser. Aletheia intends to serve as the sub-adviser for these mutual funds. This Form ADV will be revised as needed upon commencement of the mutual funds.

### **Item 11. Code of Ethics, Participation or Interest in Client Transactions and Personal Trading**

Aletheia has adopted its Code of Ethics which is designed to detect and prevent any impropriety or appearance of impropriety with respect to personal trading. The Code is designed to monitor and manage any issues, if they arise, in a manner that is consistent with its fiduciary duty to its clients and in accordance with applicable law. Aletheia will provide its Code of Ethics to any client or prospective client upon request.

Aletheia's employees are allowed to invest in U.S. Treasury bills, U.S. Government mutual funds, money market funds, and/or to have their accounts managed by the Firm. Aletheia manages such employee accounts alongside client accounts. Employee accounts are monitored and covered by the Firm's trade allocation policy.

Aletheia's Code of Ethics requires that all employee personal trades are reviewed by Compliance and receive the appropriate sign-off by the Chief Executive Officer ("CEO") and Chief Compliance Officer ("CCO"). Such trades are executed only after a check is done to ensure that the personal trades do not conflict with any client trades. Compliance further monitors personal trading for any patterns of impropriety.

### **Item 12. Brokerage Practices**

In selecting a broker to execute a transaction for a client, Aletheia may consider a variety of factors, including the following: the broker's capital depth; the broker's market access; the broker's research; the broker's transaction confirmation and account statement practices; Aletheia's knowledge of negotiated commission rates and spreads currently available; the nature of the security or instrument being traded; the size and type of the transaction; the nature and character of the markets for the security or instrument to be purchased or sold; the desired timing of the transaction; the execution, clearance and settlement capabilities of the broker selected; the reputation and perceived soundness of the broker selected and; Aletheia's knowledge of any actual or apparent operational problems of a broker; and the reasonableness of the commission or its equivalent for the specific transaction.

Aletheia does not participate in any soft dollar arrangements.

In some circumstances, a client will designate a particular broker or dealer through which trades are to be effected or through which transactions may be introduced, typically under such terms as the client negotiates with the particular broker or dealer. Where a client has directed the use of a particular broker or dealer, Aletheia may be somewhat limited in its ability to negotiate commission rates or spreads. Nonetheless, Aletheia has the right to use alternative brokers in order to seek the lowest possible rates subject to the Firm's best execution policy.

Additionally, transactions for a client that has directed that Aletheia use a particular broker or dealer may not be commingled or "bunched" for execution with orders for the same securities for other managed accounts. Occasionally the Firm may attempt to "step out" such transactions to the client's designated broker or dealer (if the executing broker or dealer is willing). Directed transactions may be subject to price movements, particularly in volatile markets, that may result in the client receiving a price that is more or less favorable than the price obtained for the bunched order.



Similarly, the above limitations apply for clients who limit Aletheia's authority to combine or bunch orders.

Orders being placed at the same time for the accounts of two or more clients may be "bunched" or placed as an aggregated order for execution. This practice may enable Aletheia to seek more favorable executions and net prices for the combined order. Any orders placed for execution on an aggregated basis are subject to Aletheia's trading policy.

Cross trades are transactions in which Aletheia arranges for a client account to buy a security from, or sell a security to, another client account.

In crossing any trade: (i) ALETHEIA shall not act as a broker - i.e., charge a commission in connection with the cross trade, (ii) the cross trade shall always be executed through an SEC-registered broker-dealer, (iii) the Portfolio Manager arranging the cross trade shall ensure that the transaction price is fair to both clients and that the bid-ask spread is reasonable in relation to the crossing services rendered; and, (iv) the Portfolio Manager shall obtain prior approval of the cross trade as noted below.

In order to effect any cross trades, prior written approval must be obtained from the CCO. A written report must be provided to the CCO explaining why the trade should be done as a cross rather than an open market transaction, identifying the executing broker and discussing the competitiveness of the trade price. The trader will work with the CCO to make a record of the trade, showing the trade parties, trade date and price, the SEC registered broker dealer, and the reasons for the cross, and shall determine whether the trade was executed through an SEC-registered broker-dealer, and whether the trade was executed at a competitive price.

Aletheia routinely manages client accounts that use similar strategies and have similar investment objectives ("Similar Accounts"), and thus Aletheia routinely purchases or sells the same security at or about the same time for two or more Similar Accounts. In managing Similar Accounts, Aletheia strives to treat each Similar Account in a manner that is fair and equitable over time in light of all relevant factors. Such factors will usually include the relative market values of the Similar Accounts; particular variations among the Similar Accounts in terms of investment guidelines, specific strategies, objectives or related factors; the amount of the security available to be purchased or sold at the time in relation to the total amount of the security that Aletheia wishes to buy or sell for the Similar Accounts; the smallest efficient transaction size for each Similar Account; and, the relative need of each Similar Account for an allocation of the purchase or sale.

Aletheia groups clients into blocks to: (i) facilitate trading; (ii) avail clients of better pricing and execution costs; and (iii) be more efficient in its trading practices. Depending on the above-noted factors, Aletheia shall, when practicable and possible, allocate securities to the clients participating in each block trade, on a pro rata basis, unless it is determined that a reasonably different allocation is in the best interests of the clients participating in the trade. Aletheia may, with respect to individual transactions, allocate (in terms of the relative market values of the Similar Accounts) the available amounts of the security that can be purchased or sold to one or more of the Similar Accounts, at different times and in different amounts. Aletheia uses reasonable efforts through a randomized process to provide fair and equitable allocations to Similar accounts over time. This process is supplemented by a trade implementation list to assist in the

coordination of these procedures. Aletheia performs periodic testing to monitor this policy.

Apart from options traded by certain custom accounts and by the Private Funds, all client accounts traded within the Firm's strategies are subject to the Firm's trade allocation policy. The Firm's trade allocation practices are monitored by the compliance team and assisted by the performance team which provides reports to the compliance team for review. The Firm regularly reviews dispersion (differences in performance between client accounts in the same strategy) among clients to monitor the effectiveness of the Firm's allocation policy.

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

Aletheia reviews client portfolios on a regular basis, usually several times per quarter, to monitor items such as mandate compliance, position sizes, portfolio weightings, and cash balances. Based upon these reviews, recommendations, as applicable, are communicated to the investment team. The CIO is ultimately responsible for deciding what changes, if any, should be made.

The Firm uses Advent's Rules Manager as a tool to assist in monitoring the clients' investment guidelines. Any guideline restrictions which can be monitored in Rules Manager are coded by Compliance and monitored daily. In addition, the Firm produces reports bi-monthly which track dispersion among accounts within certain strategies. These reports are reviewed by the CIO and the investment team along with the client service team.

As noted above, account reviews may be triggered when (i) the client's account violates an investment guideline (e.g. due to market movement); (ii) there is significant cash flow; or (iii) an account significantly deviates in performance from other accounts within a composite strategy.

Client reports include performance, valuation, and transactions during the period. Reports are provided to clients as mutually agreed upon. Typically, client reports are distributed on a monthly or quarterly basis. The Firm also produces quarterly commentaries for clients in its largest strategies (which covers the vast majority of the Firm's AUM).

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

Aletheia does not participate in any client referral compensation arrangements.

### **Item 15. Custody**

Not Applicable.

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

Aletheia accepts discretionary authority to manage securities accounts on behalf of clients subject to the terms in the investment management agreement, any applicable investment restrictions, and the requirements under the Adviser's Act. Aletheia does not exercise discretionary authority unless the client has signed an investment management agreement (which authorizes the Firm to perform its investment advisory role).

**Item 17. Voting Client Securities**

Aletheia votes client proxies from time to time as mutually agreed upon between Aletheia and clients. Aletheia's policy is to vote such proxies in the interest of maximizing shareholder value – voting proxies in such a manner as to cause the security's value to increase the most or decline the least – considering both the short and long term implications of the proposal to be voted.

Aletheia has contracted with Institutional Shareholder Services Inc. ("ISS", formerly referred to as "RiskMetrics") to assist with its proxy voting responsibilities. Aletheia has adopted the ISS U.S. proxy voting guidelines. ISS performs the administrative implementation of the guidelines. Aletheia oversees the ISS process and has the ability to modify a vote if its investment personnel do not agree with the ISS voting policy recommendation.

The ISS U.S. Proxy Voting Guidelines Concise Summary and proxy voting records will be provided to clients upon request.

Aletheia does not vote proxies for all of its clients. Those clients who vote proxies for themselves would typically obtain proxy information from their custodians. The Firm does not typically provide advice on particular solicitations for these clients.

**Item 18. Financial Information**

Not Applicable.

**Item 19. Requirements for State-Registered Advisers**

Not Applicable.

**November 16, 2011  
Form ADV Part 2B (Brochure Supplement)**

**Aletheia Research and Management, Inc.  
100 Wilshire Boulevard  
Suite 1900  
Santa Monica, CA 90401  
(310) 899-0800**

**This brochure supplement provides information about Peter J. Eichler, Jr. and Mark Scalzo, that supplements the Aletheia Research and Management, Inc. brochure. You should have received a copy of that brochure. Please contact Ann Marie Swanson if you did not receive Aletheia Research and Management, Inc.'s brochure or if you have any questions about the contents of this supplement.**

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

## **PETER J. EICHLER, JR.**

### **ITEM 2: EDUCATIONAL BACKGROUND AND BUSINESS EXPERIENCE**

**Peter J. Eichler, Jr.**, born 1957.

Chairman, Chief Executive Officer (“CEO”), Chief Investment Officer (“CIO”). Mr. Eichler is Chairman, CEO and CIO of Aletheia Research and Management, Inc. (“Aletheia”), which he founded in 1997. Prior to this, Mr. Eichler spent twelve years at Bear, Stearns & Co. as one of its Managing Directors. While at Bear Stearns, Mr. Eichler founded the Special Accounts Money Management Division and created the Bear Stearns Insiders Fund. Mr. Eichler has been managing money professionally since 1990 and has been in the securities industry for over thirty years. Mr. Eichler created the Aletheia 100 Insider Index in 1999 and the Aletheia 50 Insider Selling Index in early 2000 based upon his knowledge of, and experience in, investing around the activities of corporate insiders. Mr. Eichler received a B.A. in history from Santa Clara University.

### **ITEM 3: DISCIPLINARY INFORMATION**

Aletheia, Mr. Eichler, and Roger Peikin (a former Aletheia employee), agreed to a settlement with the Securities and Exchange Commission (“SEC”), which issued an order on May 9, 2011 (“Order”).

The Order included the following allegations involving Mr. Eichler: (1) failing to timely complete and distribute audits for hedge funds in violation of Section 206 and Rule 206(4)-2 of the Investment Advisers Act of 1940, as amended (the “Advisers Act”); and (2) failure to provide or obtain acknowledgment forms for receipt of compliance manual in violation of Section 204A and Rule 204-2(a)(12) of the Advisers Act. The Order imposed a \$100,000 civil penalty, a cease and desist order, and a censure against Mr. Eichler.

Additional information regarding the Order is included in Aletheia’s brochure.

### **ITEM 4: OTHER BUSINESS ACTIVITIES**

Aletheia Securities Inc. (“ASI”) is a broker-dealer registered with the SEC and a wholly-owned subsidiary of Aletheia. Mr. Eichler is the President and CEO of ASI. Mr. Eichler is also a registered representative with ASI. ASI primarily provides brokerage services to Aletheia’s direct high net worth clients. Mr. Eichler does not directly receive compensation from ASI for the services he provides on behalf of ASI. ASI receives commission income from Aletheia’s clients for executing trades on their behalf, and ASI’s net income is distributed to its parent, Aletheia. As an owner of Aletheia, Mr. Eichler has an indirect interest in the net income distributed by ASI to Aletheia.

Any personal trading which Mr. Eichler may undertake is subject to Aletheia's Code of Ethics (the "Code"). Consistent with the Code, Aletheia's Compliance Department monitors all personal trading activity of its employees to ensure that such trades do not conflict with any client trades.

Prior to any employee trade, there is a check to ensure that the trade does not conflict with any client trade. In addition, the Compliance Department performs post trade evaluation of employee trades by reviewing trades 5 days before and after such trades to ensure that there are no patterns of behavior which could disadvantage clients.

#### **ITEM 5: ADDITIONAL COMPENSATION**

Mr. Eichler holds a majority of the stock of Aletheia, and, as a result, would indirectly benefit from any net income distributed to Aletheia by ASI.

#### **ITEM 6: SUPERVISION**

Mr. Eichler is the Chairman, CEO and CIO of Aletheia. Aletheia has adopted a Code of Ethics that, among other things, govern the process for developing investment decisions. Aletheia's Code of Ethics provides for reviewing and overseeing Aletheia's employees, including Mr. Eichler's, activities. The Code of Ethics are implemented by the committee identified in those documents. In addition, Mr. Eichler's activities are overseen by Aletheia's board of directors. Please contact Ann Marie Swanson, Chief Compliance Officer, at (310) 899-0800 for more information regarding the Code of Ethics.

#### **ITEM 7: REQUIREMENTS FOR STATE-REGISTERED ADVISERS**

This Item 7 is not applicable.

## **MARK C. SCALZO**

### **ITEM 2: EDUCATIONAL BACKGROUND AND BUSINESS EXPERIENCE**

**Mark C. Scalzo**, born 1967

Executive Vice President, Director of Research, Co-Portfolio Manager. Mr. Scalzo is Senior Managing Director, Executive Vice President, Director of Research, and Co-Portfolio Manager of Aletheia. Mr. Scalzo joined Aletheia in 2008 after working for Ken Fisher at Fisher Investments as a Group Vice President and Head of Mergers & Acquisitions. Prior to December 2006, Mr. Scalzo was a Regional Manager / Managing Director with Putnam Lovell NBF Securities, where he spent over 15 years advising public and private companies on mergers & acquisitions in the financial services and real estate industries. During that time, Mr. Scalzo advised on over 40 successful transactions. Mr. Scalzo began his career as an M&A generalist for Salomon Brothers in New York in 1989 after graduating cum laude from the Wharton School at the University of Pennsylvania with a Bachelor of Science Degree in Economics.

### **ITEM 3: DISCIPLINARY INFORMATION**

There are no legal or disciplinary events required to be reported pursuant to this Item 3.

### **ITEM 4: OTHER BUSINESS ACTIVITIES**

Mr. Scalzo is a registered representative of ASI. Mr. Scalzo does not directly receive compensation from ASI for the services he provides on behalf of ASI. Nor does his activity on behalf of ASI reflect his compensation from Aletheia.

### **ITEM 5: ADDITIONAL COMPENSATION**

There are no additional compensation matters to report.

### **ITEM 6: SUPERVISION**

Mr. Scalzo's investment activities on behalf of Aletheia are supervised by Peter Eichler, Chief Executive Officer and Chief Investment Officer, who can be reached by phone at (310)899-0800. Aletheia's Code of Ethics provide for reviewing and overseeing Aletheia's employees, including Mr. Scalzo's activities. The Code of Ethics are implemented by the committee identified in those documents. Please contact Ann Marie Swanson, Chief Compliance Officer, at (310) 899-0800 for more information regarding the Code of Ethics.

### **ITEM 7: REQUIREMENTS FOR STATE-REGISTERED ADVISERS**

This Item 7 is not applicable.

# **ALETHEIA RESEARCH AND MANAGEMENT, INC.**

## ***PRIVACY POLICY***

### **Background**

The SEC's Regulation S-P requires an investment adviser to disclose to clients its policies and procedures regarding the use and safekeeping of personal information.

At Aletheia Research and Management, Inc. ("ALETHEIA"), personal information is collected from clients at the inception of their accounts, primarily to determine accounts' investment objectives and financial goals. We collect information about you to help us serve your financial needs, provide customer service, offer new products or services, and fulfill legal regulatory requirements. The type of information we collect may include:

- information we receive from you on applications or other forms (for example, name address, social security number, assets and income); and
- information about your transactions with us or others (for example, your account balance, payment history, or parties to transactions).

### **Policy**

ALETHEIA is committed to protecting your personal and financial information. ALETHEIA will not disclose a client's personal information to anyone except:

- as permitted or required by law,
- at your direction,
- as may be necessary to provide ALETHEIA'S services, including to third-party service providers under obligations of confidentiality,
- to enforce ALETHEIA's rights under the law, and
- to any acquirer of all or substantially all of the equity or assets of ALETHEIA, subject to the terms of this Privacy Policy.

The Chief Compliance Officer will oversee ALETHEIA's compliance with its Privacy Policy.



## **ALETHEIA RESEARCH AND MANAGEMENT, INC.**

### ***PROXY VOTING POLICY***

The Securities and Exchange Commission has issued rules that require all registered investment advisors to make certain disclosures regarding their proxy voting guidelines. ALETHEIA votes client proxies on a discretionary basis as mutually agreed upon between ALETHEIA and the client. ALETHEIA's policy is to vote such proxies in the interest of maximizing shareholder value – voting proxies in such a manner as to cause the issue to increase the most or decline the least – considering both the short and long term implications of the proposal to be voted.

ALETHEIA has contracted with Institutional Shareholder Services Inc. ("ISS", formerly referred to as "RiskMetrics") to assist with its proxy voting responsibilities and has adopted ISS' U.S. Proxy Voting Guidelines accordingly. ISS performs the administrative implementation of the Guidelines while ALETHEIA oversees the ISS process and has the ability to modify a vote if its investment personnel do not agree with the ISS voting policy recommendation.

The ISS U.S. Proxy Voting Guidelines Concise Summary and proxy voting records may be provided to clients upon request. Please contact our Client Service team or Chief Compliance Officer if you have any questions.