

# Brown Brothers Harriman Mutual Fund Advisory Department Disclosure Document

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FEBRUARY 2009

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## **THE BROWN BROTHERS HARRIMAN MUTUAL FUND ADVISORY DEPARTMENT**

This disclosure document provides an overview of the Brown Brothers Harriman (“BBH”) Mutual Fund Advisory Department’s business, which is limited to the provision of investment advisory and portfolio management services for investment companies that are registered under the Investment Company Act of 1940 (“Registered Investment Companies”).

In its capacity as a bank, BBH is exempt from registering with the U.S. Securities and Exchange Commission (the “SEC”) as an Investment Adviser under the Investment Advisers Act of 1940, as amended. BBH did, however, register a “Separately Identifiable Department” (the “SID”) with the SEC. The SID, also known as the BBH Mutual Fund Advisory Department (the “Investment Adviser”), is an adviser to Registered Investment Companies. The SID’s limited client base is BBH-affiliated funds (“Funds”).

### **INVESTMENT ADVISORY SERVICES, PRODUCTS & FEES**

#### *Overview*-----

The Investment Adviser has a disciplined investment process for selecting and monitoring investments for Registered Investment Companies (i.e., the Investment Adviser provides investment supervisory services). The Investment Adviser has a team of experienced securities analysts who follow specific industry sectors and work collaboratively with each other to identify, analyze and monitor portfolio companies. The analysts conduct analysis of industry structure and communicate regularly with knowledgeable industry participants and company management teams to assess whether companies meet the Investment Adviser’s business, management and valuation criteria. They also identify key business risks and any variables outside of management’s control. The Investment Adviser may also obtain third party information and assistance, which may include the hiring of one or more entities to provide non-exclusive sub-advisory and/or other investment-related services. Such entities or individuals may themselves be advisers to other investment advisers or vehicles, including their own proprietary funds. A review process helps ensure that portfolios are being managed in compliance with portfolio policies and objectives as well as the Investment Adviser’s own investment guidelines.

For certain Fund clients, the Investment Adviser will employ a “manager-of-managers” investment approach, whereby it allocates the Fund’s assets among subadvisers. Subject to the supervision of the Fund’s Board of Directors, the Investment Adviser oversees the subadvisers and evaluates their results. The Investment Adviser reviews portfolio performance, characteristics, departures of key personnel of the subadvisers and any other relevant topics. The Investment Adviser also regularly analyzes and monitors economic trends and monetary policy. The holdings of the Funds and the allocation of assets to subadvisers are regularly reviewed with the objective of enhancing the total rate of return over a market cycle and dampening return volatility.

Below is a discussion of the Investment Adviser’s coverage of the Equity and Fixed Income asset classes. Advisory fees are discussed in the end of this section.

#### *Equity* -----

##### **▪ Investment Strategy & Philosophy**

The Investment Adviser’s equity investment philosophy centers on active management and fundamental analysis of individual companies. The equity team invests primarily in cash generative businesses that are leading providers of essential products and services. The Investment Adviser believes that purchasing the equity securities of such companies when they are trading at a discount to intrinsic value is an effective way to enjoy the benefits of equity ownership (namely, higher capital appreciation over time) while reducing the risk of permanent capital loss. While the Investment Adviser typically takes a long-term investment approach to managing client accounts, the Investment Adviser may at times engage in short-term trading (i.e. holding securities less than 30 days). Most investee companies have market capitalizations greater than \$5 billion and are headquartered or have significant operations in North America.

▪ **Investment Types**

The types of equity securities in which the Investment Adviser may invest on behalf of the Funds include without limitation exchange-listed securities, securities traded over-the-counter, foreign issuers, exchange-traded funds (ETFs) and mutual fund shares. The Investment Adviser may also invest, when appropriate, in portfolios of derivative instruments such as warrants, futures and options, and may trade foreign currencies in connection with purchases and sales of foreign issuers. In most cases, such investments will involve greater volatility and liquidity risk than other types of equity securities.

▪ **Methods of Analysis**

The Investment Adviser's investment team consists of securities analysts who follow specific industry sectors and work collaboratively with each other to identify, analyze, and monitor portfolio companies. The analysts conduct analysis of industry structure and communicate with knowledgeable industry participants and, when appropriate, company management teams to assess whether companies meet the Investment Adviser's business, management, and valuation criteria. Where appropriate they also use outside consultants and research materials. For each investee company, the analysts seek to identify the key business risks and variables outside of management's control. Outside research materials/analytical tools used may include:

Research Materials/Analytical Tools
<ul style="list-style-type: none"><li>• Financial Newspapers</li><li>• Inspections of Corporate Activities</li><li>• Research Prepared by Third Parties</li><li>• Corporate Rating Services</li><li>• Timing Services</li><li>• Annual Reports, Prospectuses and SEC Filings</li><li>• Company Press Releases</li></ul>

A review process helps ensure that the portfolios are being managed in compliance with portfolio policies and objectives.

▪ **Valuation**

The Investment Adviser typically prices securities using readily available market quotations it receives from independent, third-party pricing services. In the event such market quotations are unavailable, or the Investment Adviser determines in good faith that such quotations may be unreliable, or when an active market for a security does not exist (such is the case during periods of extreme market uncertainty), the Investment Adviser may price the securities using an internal methodology. These prices will be estimates of fair value as of the valuation date, and the Investment Adviser makes no representation or warranty that a security can be sold at the estimated price. There may be instances where vendor prices are unavailable or unreliable and the Investment Adviser may determine not to provide an internal estimate of fair value.

*Fixed Income* -----

▪ **Investment Strategy & Philosophy**

The Investment Adviser uses a team approach for the management of its fixed income portfolios. It pools the talents of its portfolio managers and securities analysts to assemble an appropriate portfolio structure for clients.

The fixed income management philosophy is grounded in the following core beliefs:

- (1) The fixed income markets offer inefficiencies that are best harvested through the balanced application of quantitative and fundamental disciplines.

- (2) Risk-adjusted returns are earned most consistently through a structured approach to portfolio construction and the strategic application of risk control.
- (3) Portfolios should be tailored to provide solutions that satisfy clients' needs and objectives.

#### ▪ **Investment Types**

Fixed-income portfolios may include corporate debt, asset-backed securities, insurance-linked securities, municipal securities, government securities, and non-U.S. dollar denominated fixed income instruments. Fixed-income portfolios may also include foreign currencies and/or derivative/structured products, including swaps, or similar instruments that involve greater volatility and liquidity risk than other types of fixed-income securities. For tax-sensitive clients, the Investment Adviser offers municipal and "crossover" fixed income products to maximize after-tax return.

#### ▪ **Methods of Analysis**

The majority of the Investment Adviser's fixed income analysis and research is performed internally. Both credit and quantitative analysis are fundamental parts of the investment management process. The Investment Adviser has structured its fixed income team to allow for functional specialization in the following areas.

Credit	Quantitative
<ul style="list-style-type: none"> <li>• Security Analysis</li> <li>• Monitoring</li> <li>• Industry Trends</li> <li>• Credit Trends</li> </ul>	<ul style="list-style-type: none"> <li>• Expected Returns</li> <li>• Model Development</li> <li>• Optimization</li> <li>• Risk Quantification</li> <li>• Return Attribution</li> </ul>

The fixed income team formulates model structures for fixed income portfolios that embody the preferred collection of active management strategies. Certain elements of portfolio risk, such as yield curve and duration, may be mitigated or expected to generate only a modest contribution to overall return. The total risk budget is kept diversified across a number of individual strategies and exposures in order to strive to reduce over-dependence on any one position.

Outside research materials/analytical tools used may include:

Research Materials/Analytical Tools
<ul style="list-style-type: none"> <li>• Financial Newspapers</li> <li>• Inspections of Corporate Activities</li> <li>• Research Prepared by Third Parties</li> <li>• Corporate Rating Services</li> <li>• Timing Services</li> <li>• Annual Reports, Prospectuses and SEC Filings</li> <li>• Company Press Releases</li> </ul>

#### ▪ **Valuation**

Typically, the Investment Adviser prices securities using readily available market quotations it receives from independent, third-party pricing services. Broker quotes are not necessarily determinative of fair value if an active market does not exist for the security. In the event such market quotations are unavailable, or the Investment Adviser determines in good faith that such quotations may be unreliable, or when an active market for a security does not exist (such is the case during periods of extreme market uncertainty), the Investment Adviser may price the securities using an internal methodology which can incorporate, where available, observable market and credit inputs. These prices will be estimates of fair value as of the valuation date, and the Investment Adviser makes no representation or warranty that a security can be sold at the estimated price. There may be instances where vendor prices are unavailable or unreliable and the Investment Adviser may determine not to provide an internal estimate of fair value.

## **Fees -----**

In accordance with the Investment Adviser's agreement with the Funds, the Investment Adviser's fees are based on a percentage of assets under management. Advisory fees are generally billed monthly in arrears. The investment advisory relationship may be terminated by either the Funds or the Investment Adviser on the terms set forth in the investment advisory agreement. In the event of a termination, fees will be pro-rated based on the termination date. See also the below section entitled "ADMINISTRATION OF CLIENT ACCOUNTS, *Closing Accounts*" for additional information on account termination.

The Investment Adviser's annual advisory fees (inclusive of administration fees) range from 20 basis points to 80 basis points, depending upon asset levels and the nature of the services offered.

## **PRINCIPAL EXECUTIVE OFFICER AND INVESTMENT OVERSIGHT COMMITTEE**

The Investment Adviser maintains an investment oversight committee. Below are brief biographies on the Investment Adviser's principal executive officer and key senior officers who are helping determine investment advice.

### **John A. Gehret**

*Born:* 1959

*Education:*

1981 – Dartmouth College, B.A.

*Business Background:*

1981 – Present – Brown Brothers Harriman & Co.

1998 – Present – Partner

2008 – Head of BBH Mutual Fund Advisory Department

### **Radford W. Klotz**

*Born:* 1955

*Education:*

1977 – University of Virginia, B.A.

*Business Background:*

1977 – Present – Brown Brothers Harriman & Co.

1995 – Present – Partner

2008 – Head of Investment Process Group, Institutional Fixed Income Department

### **Richard H. Witmer, Jr.**

*Born:* 1952

*Education:*

1974 – Brown University, A.B.

1976 – Harvard University Graduate School of Business, M.B.A.

*Business Background:*

1976 – Present – Brown Brothers Harriman & Co.

1988 – Present – Partner

1989 – 2001 – Head of Mergers & Acquisitions

2001 – Present – Co-Manager of 1818 Partners

2005 – Present – Co-Manager of BBH Core Select

2005 – Present – Co-Head of Equity Investment Process Group

### **Timothy E. Hartch**

*Born:* 1969

*Education:*

1992 – Harvard University, A.B.

1996 – University of Michigan Law School, J.D.

1996 – University of Michigan Business School, M.B.A.

*Business Background:*

1996 – Present – Brown Brothers Harriman & Co.

1996 – 2000 – M&A Advisory and Private Equity  
 2001 – Present – Co-Manager of 1818 Partners  
 2005 – Present – Co-Manager of BBH Core Select  
 2005 – Present – Co-Head of Equity Investment Process Group

**Gregory S. Steier**

*Born:* 1970

*Education:*

1992 – New York University, B.S.  
 1996 – New York University, M.B.A.

*Business Background:*

1992 – Present – Brown Brothers Harriman & Co.  
 2000 – Present – Head of Institutional Fixed Income Portfolio Management

**Andrew P. Hofer**

*Born:* 1963

*Education:*

1986 – Yale University, B.A.  
 1988 – Columbia University, M.I.A. – School of International Affairs

*Business Background:*

1988 – Present – Brown Brothers Harriman & Co.  
 1988 – 1997 – BBH Domestic Banking  
 1998 – 2003 – Head of Institutional Investment Management  
 2003 – 2007 – Chief Operating Officer -- Investment Management  
 2007 – 2008 – Head of Insurance Asset Management  
 2008 – Head of Fixed Income Research

**Sub-advisers for the BBH International Equity Fund**

More information about the below sub-advisers can be found in the Prospectus of the BBH International Equity Fund.

- ❖ Walter Scott & Partners Limited
- ❖ Mondrian Investment Partners Limited

**OTHER FINANCIAL INDUSTRY ACTIVITIES OR AFFILIATIONS**

The Investment Adviser uses BBH, a New York State chartered private bank, as custodian for the assets of the Funds.

The Investment Adviser utilizes the investment research prepared by unaffiliated brokers or by BBH in the course of managing the investment portfolios of its clients. (See also the below section entitled “Soft Dollar’ or Research/ Execution Arrangements” for a discussion of directed brokerage as compensation for research used to advise clients.)

**ADMINISTRATION OF CLIENT ACCOUNTS**

*Review of Accounts/Funds-----*

Supervisory management (listed above) review Fund portfolios at least annually in accordance with applicable policies and procedures. Generally, reviews will include, where applicable, a:

- Check for portfolio compliance with Fund investment objectives/guidelines (e.g., Prospectus/ SAI guidelines, where applicable);
- Check for asset concentrations/diversifications for a particular Fund portfolio; and
- Comparison of portfolio characteristics/performance against account benchmarks.

## *Client Communications & Reports -----*

The Investment Adviser communicates with the Funds in a number of ways: meetings, telephone calls, electronic media, letters and/or portfolio reports. Additionally, the Funds may receive various memoranda relating to economic, market or tax developments, or matters relating to particular industries or securities. Reports and/or presentations to the Board(s) of the Funds are typically done quarterly, but in some cases annually, at the request of a Fund Board.

## *Investment and Brokerage Discretion -----*

### ▪ **Authority to Exercise Discretion**

The Investment Adviser's agreement with the Funds authorizes the Investment Adviser to make appropriate investment decisions. The Board of Trustees for the Funds monitors the Investment Adviser's activities in accordance with the investment advisory agreement.

### ▪ **Best Execution**

The Investment Adviser directs orders for the Funds to a list of unaffiliated broker-dealers for execution. The Investment Adviser shall seek to obtain the best execution of such orders. In this regard, trades may be directed to brokers or dealers when deemed advisable based on a number of factors including: the broker's or dealer's ability to execute orders without disturbing the market price; the broker's or dealer's reliability for prompt, accurate confirmations and on-time delivery of securities; the broker's or dealer's financial condition and responsibility; the research and other investment information provided by the broker or dealer, notwithstanding that a particular client's account may not be the direct or exclusive beneficiary of such service; and the commission charged. Accordingly, the commissions charged by any such broker or dealer may be greater than the amount another firm might charge as long as the Investment Adviser determines, in good faith, that the amount of such commissions is reasonable in relation to the value of the brokerage and research information provided. BBH has established a Best Execution and Oversight Committee to monitor the Investment Adviser's efforts to meet best execution obligations. (See also the below section entitled "Aggregation and Allocation of Transactions" for additional information on trade allocation and the section entitled "Soft Dollar or Research/Execution Arrangements" for additional information on allocation of brokerage transactions.).

Generally, neither the Investment Adviser nor BBH provides execution services itself to advisory clients. However, if it or BBH were to provide such services as an accommodation when the client has provided prior written authorization, it would do so only if it determined that "best execution" would be accomplished in accordance with the preceding paragraph and applicable law, and BBH/SID would not charge commissions on such orders. It should also be noted that the SID advisory personnel do not receive brokerage commission-based compensation.

The Investment Adviser does not generally arrange "agency cross" or "cross transactions" for the Funds. Such securities transactions may be arranged for the Funds through unaffiliated brokers only in compliance with applicable law and SID and BBH policies and procedures.

### ▪ **Aggregation and Allocation of Transactions to Unaffiliated Brokers**

As discussed above, the Investment Adviser directs order instructions for the Funds to a list of unaffiliated broker-dealers for handling and execution. When it is determined that aggregation (or "batching") of order instructions is consistent with the Investment Adviser's duty to seek best execution for the Funds and with operational efficiency, it may, in its discretion, permit outside brokers to combine trades for one Fund account with trades for another Fund or BBH account, including accounts of BBH's partners and personnel. In the event that trades are combined, no advisory account will be favored over any other advisory account with respect to allocation percentages or execution price over an extended period of time. The allocation of securities purchased in batched trades among accounts is intended to be accomplished fairly and equitably.

Accounts that are eligible to purchase or sell fixed income and/or equity securities that are block-traded, will generally be allocated a pro rata portion of the executed block trade. In the event an order is only partially filled, the executed shares will be allocated on a pro rata basis based on the amount of assets in each order subject to limited exceptions including adjustments for rounding and odd-lots. Allocations for equity and fixed income trades are generally made by the end of the day on which the trade was executed absent extraordinary circumstances.



- **Cash Management Services**

The Investment Adviser may invest idle cash remaining in the Funds' accounts in overnight time deposits with overseas banking institutions for which clients receive a standard rate (the "Overnight Rate") despite the fact that fluctuating overnight rates may result in the Investment Adviser receiving more or less than the Overnight Rate on invested cash.

- **Commission Rates**

The Investment Adviser will not select broker-dealers solely on the basis of commission rates nor will it always seek competitive bidding for the most favorable commission rate in advance of any particular transaction. As a result, the Funds may not necessarily pay the lowest commission. Transactions may involve specialized services on the part of the broker-dealer involved which may call for higher commissions than would be the case with other transactions requiring more routine services. The Investment Adviser will determine in good faith whether the amount of commission is reasonable in relation to the value of research and brokerage services provided.

- **Non-exclusive Management**

From time to time, the Investment Adviser or BBH may render advice to and execute transactions for its own account and for the accounts of other persons. The accounts of other persons may include BBH partners and personnel investment advisory accounts including discretionary accounts that are centrally managed as well as privately offered investment funds and other collective investment vehicles for which BBH or its affiliates serve as investment adviser, sponsor or in other capacities.

- **"Soft Dollar" or Research/Execution Arrangements**

Brokerage transactions may be directed to specific brokers or dealers to pay for research or services which can help the Investment Adviser provide investment management services to the Funds. Research and services may include information on the economy, industries, groups of securities, individual companies, statistical information, accounting and tax law interpretations, political developments, legal developments affecting portfolio securities, technical market action, credit analysis, risk measurement analysis, performance analysis, and analysis of corporate responsibility issues.

The use of a broker that provides useful research and securities transaction services may result in a higher commission than that offered by a broker who does not provide research services. The Investment Adviser will determine in good faith if the amount of the commission is reasonable in relation to the value of the brokerage and research services received. Research services may be useful in servicing the Funds accounts but not all of such research may be useful for the Fund account in which the particular transaction was effected. The Investment Adviser's "soft dollar" practices as described above and its policies and procedures governing this topic are intended to comply with the safe harbor rules of Section 28(e) of the Exchange Act, where applicable.

*Proxy Voting Policy* -----

The Investment Adviser has adopted a Proxy Voting Policy and Procedures, available to clients upon request. The Investment Adviser will also provide the voting record for a particular Fund, upon written request by that Fund. Unless otherwise stated in the investment advisory agreement, the Investment Adviser maintains the right to vote proxies on behalf of the Funds and may utilize the services of a third party proxy agent in making voting decisions.

*Closing Accounts* -----

Investment advisory contracts may be terminated by either the Funds or the Investment Adviser at any time by written notice given to the other party at least 30 days prior to the date on which such termination is to take place, or as otherwise agreed upon in the investment advisory agreement. The Funds' investment advisory agreements may also contain terms applicable to account termination.

## OTHER IMPORTANT INFORMATION

### *Tax & Legal Matters* -----

Prior to investing, it is strongly recommended that clients consult with legal and/or tax advisors to discuss the impact of the Investment Adviser's investment advice on the client's legal and tax situation.

### *Miscellaneous* -----

#### ▪ **Code of Ethics**

The Investment Adviser has adopted a code of ethics (the "code") that includes provisions, among others that (a) personnel of the Investment Adviser and/or of BBH ensure that personal securities transactions are conducted in accordance with the code and with the firm's Personal Trading and Insider Trading Policies (which include holdings certifications for "Access Persons" as defined therein), and in such a manner as to avoid any actual or potential conflict of interest; (b) personnel comply at all times with applicable laws and regulations; and (c) personnel of the Investment Adviser and/or of BBH must annually provide an acknowledgment of his or her compliance with the code, as amended from time to time. In addition, as part of the firm's hiring practices, new personnel receive a copy of the code and are required to acknowledge reading and complying with it.

The Investment Adviser will provide a copy of the code to any client or prospective client upon request.

#### ▪ **Trading/Portfolio Management Controls**

It is the Investment Adviser's and BBH's policy to prohibit personnel from profiting at the expense of its clients. Policies and procedures have been designed to prevent the use of material non-public information, and to enable fair allocation of batched transactions and equitable trade routing and execution.

The Investment Adviser has adopted policies and procedures, including trade allocation procedures, which it believes address the conflicts associated with managing multiple accounts for multiple clients. For example, it is possible that the various accounts managed could have different investment strategies that, at times, might conflict with one another to the possible detriment of a client. Alternatively, to the extent that the same investment opportunities might be desirable for more than one account, possible conflicts could arise in determining how to allocate them, including situations when the advisory fees for certain client accounts/Funds include a sharing in the capital appreciation of the account (also known as performance fees).

#### ▪ **Partner and Personnel Activities**

BBH partners and personnel, including those affiliated with the SID, do at times purchase and sell securities that BBH as a firm follows for its investment advisory business and/or which BBH purchases and sells for its investment advisory clients. These purchases may be for their own accounts, or accounts in which they have a financial interest or over which they have control. Trading is permitted pursuant to the Investment Adviser's policies and procedures which include a BBH pre-clearing process for transactions by certain defined insiders. These procedures are designed to prevent and detect any account activity which violates policy or applicable laws.

#### ▪ **Participation or Interest in Client Transactions**

Neither the Investment Adviser nor BBH will knowingly process principal trades of securities for any client where the Investment Adviser or BBH has acted as investment adviser to the client, except when the transaction is conducted in accordance with applicable regulations.