

## **BALLYROCK INVESTMENT ADVISORS LLC**

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This brochure provides information about the qualifications and business practices of Ballyrock Investment Advisors LLC ("Ballyrock"). Throughout this brochure and related materials, Ballyrock may refer to itself as a "registered investment adviser" or "being registered." These statements do not in any way imply a certain level of skill or training. If you have any questions about the contents of this brochure, please contact us at (617) 563-7000.

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 Ballyrock Investment Advisors LLC is available on the SEC's website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).

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## **ADVISORY BUSINESS**

Ballyrock Investment Advisors LLC (“Ballyrock”) is wholly-owned by FMR LLC and has been in business since 2001. It provides investment advisory services to various types of structured credit vehicles, including collateralized loan obligation and collateralized debt obligation vehicles (collectively, “CDOs”), which have focused on investments in various types of debt securities, including bank loans, bonds and asset-backed securities.

In particular, Ballyrock acts as the collateral manager for various CDOs or other structured credit vehicles that have issued multiple tranches of debt and equity securities collateralized by a portfolio of securities, typically debt obligations such as bank loans, bonds and other debt securities. As collateral manager of a CDO or other structured credit vehicle (an “issuer” or “client”), Ballyrock will typically be authorized to (i) select the debt obligations and/or other eligible investments to be acquired by the issuer, (ii) invest and reinvest the assets of the issuer, and (iii) instruct the trustee of the issuer with respect to any acquisition, disposition or tender of any investments held by the issuer. Ballyrock is typically also authorized to negotiate on behalf of an issuer with respect to any hedge agreements (such as interest rate swaps) or securities lending arrangements to be entered into by the issuer, if any. Ballyrock has also engaged in structuring CDO transactions that it manages.

Ballyrock’s affiliate, Fidelity Management & Research Company (“FMR”), serves as sub-adviser to each CDO that Ballyrock manages pursuant to sub-advisory agreements. FMR is also a registered investment adviser wholly-owned by FMR LLC. All references herein to advisory services provided by Ballyrock shall include the sub-advisory services provided by FMR to the CDOs managed by Ballyrock.

Ballyrock may offer advice to the CDOs it manages on investing in bank loans, debt, bonds, synthetic securities, asset backed securities, hedge agreements (such as interest rate swaps) and securities lending arrangements. The type of investments in CDOs and other structured credit vehicles that Ballyrock may advise in the future may vary.

From time to time a manager, analyst or other employee of Ballyrock or its affiliate may express views regarding a particular company, security, industry or market sector. The views expressed by any such person are the views only of that individual as of the time expressed and do not necessarily represent the views of Ballyrock, or its affiliates or any other person in the Fidelity organization. Any such views are subject to change at any time based upon market or other conditions, and Ballyrock disclaims any responsibility to update such views. These views may not be relied on as investment advice and, because investment decisions for an account managed by Ballyrock or its affiliates are based on numerous factors, may not be relied on as an indication of trading intent on behalf of any such account.

At the outset of any new CDO or structured credit transaction, Ballyrock, along with other deal participants, including the underwriters, placement agents, rating agencies and investors, will determine the type of investments that the CDO or other structured credit vehicle will make and any limitations on such investments.

Ballyrock’s total assets under management on a discretionary basis as of December 31, 2010 were \$1,941,700,000.

## **FEES AND COMPENSATION**

With respect to the CDOs it manages, Ballyrock’s fee includes a “base fee” component and an “incentive fee” component. The base fee is generally based on a percentage of assets under management and is payable in arrears on each quarterly distribution date, subject to the priority of payments established by each such CDO’s trust indenture. These fees are paid quarterly out of the cash proceeds available for distribution to the CDO’s investors and at maturity or redemption of the CDO, in each case, to the extent sufficient cash exists, in accordance with the priority of payments. The incentive fee component accrues

over the life of the CDO, but will not be payable to Ballyrock until such time as a specified internal rate of return has been earned by the holders of the CDO's equity tranche. Fees earned by Ballyrock but not paid out to Ballyrock will accrue interest at a negotiated rate until such time as the fees can be paid to Ballyrock in accordance with the terms of the applicable CDO's trust indenture.

Ballyrock has also received a structuring fee for advice it rendered in structuring certain CDOs that it manages. The structuring fee has been based on a percentage of the aggregate size of the CDO's securities offering and has been paid to Ballyrock from the proceeds of such offering.

In general, Ballyrock will be responsible for all of its ordinary expenses incurred in the performance of its investment management duties in respect of any structured credit vehicle or other investment account, including the expenses and fees of any third party retained by Ballyrock to assist in the performance of such duties. However, (i) transactional expenses (such as brokerage commissions, transfer fees, registration costs, taxes and other similar transaction-related expenses), (ii) legal and accounting expenses in connection with the CDO or other investment vehicle, (iii) extraordinary expenses (such as those incurred in connection with the default or restructuring of a collateral debt obligation or the defense of liability claims), and (iv) in some cases, expenses of unaffiliated third party technology vendors which are necessary to be incurred by Ballyrock to manage the vehicle will typically be payable out of the assets of the CDO or other investment vehicle.

Pursuant to each CDO's indenture, each CDO is also responsible for the trustee fees, administration fees, legal expenses and other administration expenses that it incurs.

## **PERFORMANCE-BASED FEES AND SIDE-BY-SIDE MANAGEMENT**

With respect to the CDOs it manages, Ballyrock's fee will typically include a "base fee" component and an "incentive fee" component. For further discussion, please refer to the Fees and Compensation section above. For all CDOs from which Ballyrock is currently eligible to receive an incentive fee, the fee is based on a percentage of assets under management and is only paid to Ballyrock at such time as a specified internal rate of return has been earned by the holders of the CDO's equity tranche. Affiliates of Ballyrock, including FMR, which sub-advises the CDOs managed by Ballyrock, receive only asset-based fees for other funds or accounts that they manage. FMR has adopted policies and procedures and maintains a compliance program designed to help manage such potential conflicts, which include trade allocation policies approved by the Fidelity Funds' Boards of Trustees. There can be no assurance, however, that all conflicts have been addressed in all situations. For more information regarding conflicts of interests relating to the management of multiple funds and accounts, see "Code of Ethics, Participation or Interest in Client Transactions and Personal Trading" on page 7.

## **TYPES OF CLIENTS**

Ballyrock provides investment advice to CDOs. The CDOs that Ballyrock advises are exempt from registering as investment companies under the Investment Company Act of 1940. The size of each client that Ballyrock advises is determined at the outset of a transaction between Ballyrock and other parties involved in the transaction, including underwriters, placement agents and investors.

## **METHODS OF ANALYSIS, INVESTMENT STRATEGIES AND RISK OF LOSS**

Ballyrock's security analysis may include interest rate trend analysis. Another main source of information Ballyrock may use is extensive corporate visits and interviews. In selecting investments for a structured credit vehicle, Ballyrock will, subject to the terms of the applicable trust indenture, generally seek securities with stable or growing cash flows, compelling industry or market dynamics, attractive security features, strong collateral protection and/or compelling valuation. In determining whether to sell a security, Ballyrock will, subject to the terms of the applicable trust indenture, consider among other factors the extent to which current income and capital appreciation expectations have been met, the

availability of more attractive investments and the extent to which the fundamentals or collateral values of the security have deteriorated.

Investing in securities issued by CDOs involves risk of loss that investors should be prepared to bear.

An investment in the CDOs managed by Ballyrock involves certain risks including:

***Limited Liquidity***

Investments in a CDO's securities should be viewed as a long-term investment, not as a trading vehicle. There can be no assurance that a market for any of a CDO's securities will develop or exist at any time. The value of an investment in a CDO's securities may vary and such securities, if sold, may be worth more or less than their original cost.

***Optional Redemption***

An optional redemption could require Ballyrock to liquidate positions more rapidly than would otherwise be desirable, which could adversely affect the returns on an investment in the applicable CDO.

***Risks related to non-investment grade debt***

The non-investment grade rating of high yield bonds and leveraged loans reflects a greater possibility that adverse changes in the financial condition of the obligor or in general economic conditions may adversely affect the obligor's ability to pay principal and interest on its debt. High yield debt securities are generally unsecured and subordinated, and generally have greater credit, insolvency, and liquidity risk than investment grade debt securities. Any potential changes in the rating agencies' rating methodology for determining expected credit loss may adversely affect spreads on a CDO's collateral portfolio and, consequently, reduce interest proceeds available to the CDO to make payments on the securities it has issued. Decline in credit quality of a CDO's collateral portfolio or defaults could result in losses which would adversely affect an investment in the CDO. In the event of impairment of credit quality and/or defaults on the collateral, Ballyrock may sell the affected collateral. There can be no assurance as to the rates of recovery on such collateral both as a result of the credit quality of such collateral and the possible limited liquidity.

***Concentration***

There may be certain industry or obligor concentrations in a CDO's collateral portfolio, which could have a material adverse impact on an investment in the CDO in the event of economic downturns or other events affecting that industry or obligor.

***Changes in Tax Laws***

Collateral is not permitted to be subject to withholding tax, unless the issuer thereof is required to make "gross-up" payments. There can be no assurance that, as a result of any change in any applicable law, treaty, rule or regulation or interpretation thereof, the payments on the collateral might not in the future become subject to withholding tax which could adversely affect the amounts that would be available to make payments on the Subordinated Securities.

***Dependence on Key Personnel***

A CDO managed by Ballyrock is highly dependent on the financial and managerial experience of certain individuals associated with Ballyrock and employees of FMR as such individuals analyze, select and manage the CDO's collateral portfolio. Loss of such key management and personnel may have a material adverse effect on the performance of the CDOs.

***Relation to Prior Investment Results***

The prior investment results of CDOs managed by Ballyrock or persons associated with Ballyrock are not indicative of future investment results. There can be no assurance that the investments will perform as well as the past investments of any such persons or entities.

***Risks specifically related to an investment in the equity securities of a CDO managed by Ballyrock:***

The CDOs' equity securities are in a first loss position with respect to defaults on the CDO's underlying collateral portfolio. The highly leveraged nature of these equity securities magnifies the adverse impact of any defaults in the collateral portfolio. A CDO's equity securities represent a highly leveraged investment in the collateral. Therefore, changes in the market value of the equity securities can be expected to be greater than changes in the market value of the underlying assets included in the collateral, which themselves are subject to credit, liquidity interest rate risk.

## **DISCIPLINARY INFORMATION**

There are no legal or disciplinary events that are material to the evaluation of Ballyrock's business or the integrity of its management.

## **OTHER FINANCIAL INDUSTRY ACTIVITIES AND AFFILIATIONS**

### ***Broker Dealers***

Fidelity Global Brokerage Group, Inc., a wholly-owned subsidiary of FMR LLC, has an equity interest in eBX LLC ("eBX"), a holding company and a registered broker-dealer under the Securities Exchange Act of 1934, which was formed for the purpose of developing, owning and operating an alternative trading system, the "Level ATS." Transactions for clients of Ballyrock or its affiliates, or for other entities for which Ballyrock's affiliates serve as adviser or sub-adviser or provide discretionary trading services, may be executed through the Level ATS. Ballyrock disclaims that it is a related person of eBX.

National Financial Services LLC ("NFS") is engaged in the institutional brokerage business and provides clearing and execution services for other brokers. NFS is a wholly-owned subsidiary of Fidelity Global Brokerage Group, Inc., a holding company that provides administrative services to NFS. Fidelity Capital Markets ("FCM"), a division of NFS, may execute transactions for Ballyrock's investment company and other clients. NFS is a registered broker-dealer under the Exchange Act and NFS is also registered as an investment adviser under the Investment Advisers Act of 1940 ("Advisers Act"). NFS may serve as a clearing agent for client transactions that Ballyrock places with certain broker-dealers. NFS may provide transfer agent or sub-transfer agent services to certain of Ballyrock's or Ballyrock's affiliates' clients.

### ***Other Investment Advisers***

Fidelity Management & Research Company ("FMR"), a wholly-owned subsidiary of FMR LLC, in association with its various affiliates, serves as investment adviser to a number of investment companies, and is registered as an investment adviser under the Advisers Act. For each CDO for which Ballyrock acts as collateral manager, Ballyrock will enter into a sub-advisory agreement with FMR, pursuant to which FMR will provide certain investment advice, structuring advice and support, research and trade execution services to Ballyrock.

FMR Co., Inc. ("FMRC") is a wholly-owned subsidiary of FMR and is a registered investment adviser under Advisers Act. FMRC may provide portfolio management services as a sub-adviser to certain of FMR's clients. FMRC may also provide portfolio management services as an adviser or a sub-adviser to clients of other affiliated and unaffiliated advisers.

Fidelity Investments Money Management, Inc. ("FIMM") is a wholly-owned subsidiary of FMR LLC and a registered investment adviser under the Advisers Act. FIMM provides portfolio management services as a sub-adviser to certain of FMR's clients. FIMM may also provide portfolio management services as an adviser or a sub-adviser to clients of other affiliated and unaffiliated advisers.

Fidelity Research & Analysis Company ("FRAC"), a wholly-owned subsidiary of FMR, is registered as an investment adviser under the Advisers Act. FRAC may act as an investment consultant to FMR or its affiliates and may supply FMR or its affiliates with investment research and investment advisory

information as FMR or its affiliates reasonably request on behalf of their clients. FRAC may serve as a sub-adviser to FMR or its affiliates for a number of mutual funds or other institutional accounts.

## **CODE OF ETHICS, PARTICIPATION OR INTEREST IN CLIENT TRANSACTIONS, AND PERSONAL TRADING**

Ballyrock may purchase or sell securities for the accounts of clients in which Ballyrock's or its affiliates' in-house accounts (including institutional accounts), affiliates, directors, officers or employees have a position. This situation results, in part, from the breadth of securities purchased by Ballyrock's or its affiliates' varied clients and from Ballyrock's or its affiliates' personnel being permitted to invest in securities for their personal accounts.

The potential conflicts of interest involved in employee transactions are generally governed by FMR's Code of Ethics for Personal Investing (Code), which has been adopted and approved by the Board of Trustees of FMR's or its affiliates' mutual fund clients in the Fidelity group of funds in accordance with Rule 17j-1 under the 1940 Act, and which incorporates the Adviser's Code of Ethics (Adviser's Code) adopted in accordance with Rule 204A-1 under the Advisers Act.

The Code applies to all officers, directors, and employees of FMR, including those that support Ballyrock, and requires that they place the interests of Ballyrock's clients above their own. The Code establishes securities transactions requirements for all covered employees and their covered persons, including their spouses. More specifically, the Code: (i) requires employees and their covered persons to move their covered accounts to Fidelity Brokerage Services LLC unless an exception has been granted; (ii) requires pre-clearance of transactions in covered securities; (iii) requires reporting of transactions in covered securities on a quarterly basis; (iv) requires reporting of accounts and holdings of covered securities on an annual basis; (v) generally prohibits purchases or sales by portfolio managers of securities which are traded in client accounts within seven days before or after the trade; (vi) prohibits purchases of securities in initial public offerings unless an exception has been approved; (vii) prohibits investments in limited offerings without prior approval; and (viii) requires disgorgement of profits from short-term transactions by investment personnel unless an exception has been approved. Violation of the Code's requirements may also result in the imposition of remedial action.

The Adviser's Code, which is applicable to all employees of FMR including those that support Ballyrock: (1) describes the fiduciary duty such individuals have to Ballyrock's clients; (2) requires employees of FMR to comply with federal securities laws; (3) requires employees of FMR to report, and for FMR to review, employees' and their covered persons' mutual fund share transactions and holdings periodically (money market funds excepted) for funds advised by FMR or an affiliate and certain other funds specified in the Adviser's Code; (4) requires employees of FMR to report any violations of the Adviser's Code to FMR's Ethics Office; and (5) requires FMR to provide each employee with a copy of the Adviser's Code and any amendments, and requires employees to acknowledge their receipt of the Adviser's Code.

Ballyrock will provide a copy of its Adviser's Code, as integrated into the Code, to any client or prospective client upon request.

The purchase or sale of securities for the accounts of clients in which Ballyrock's or its affiliates' in-house accounts, affiliates, or directors, officers or employees of FMR have a position also may arise in public offerings of securities where an affiliate of Ballyrock is a selling shareholder. FCM, a division of NFS, an affiliated broker-dealer of FMR, may be a selling agent or principal underwriter in underwritings of municipal, equity or other securities which FMR recommends to clients. The Trustees of FMR's or its affiliates' mutual fund clients in the Fidelity group of funds evaluate any such activity by FMR.

Conflicts of interest may arise if the funds' orders do not get fully executed due to being aggregated with those of other accounts managed by FMR or an affiliate, including FMR's or its affiliates' in-house accounts. FMR has adopted policies and procedures (for example, trade allocation procedures) and maintains a compliance program designed to help manage these actual and potential conflicts. There

can be no assurance, however, that all conflicts have been addressed in all situations. Trading in personal accounts, which may give rise to potential conflicts of interest, is restricted by the Code.

Under the collateral management agreements between Ballyrock and its clients, principal and agency cross transactions are permissible. The parties to each collateral management agreement have consented to such transactions under the agreement and the possibility of these transactions is disclosed in Ballyrock's clients' offering materials.

## **BROKERAGE PRACTICES**

### **Selection of Brokers and Dealers to Effect Client Transactions**

Ballyrock or its affiliates generally have authority to select broker-dealers (whether acting as a broker or dealer) with which to place clients' portfolio transactions. Ballyrock or its affiliates may be responsible for the placement of portfolio transactions for certain client accounts for which an affiliate or related person has investment discretion. In selecting a broker or dealer for a specific transaction, Ballyrock or its affiliates evaluate a variety of criteria and uses good faith judgment in seeking to obtain execution of portfolio transactions at commissions that are reasonable in relation to the brokerage and research services provided.

In selecting brokers, including affiliates of Ballyrock, to execute client portfolio transactions, Ballyrock or its affiliates consider the factors they deem relevant in the context of a particular trade and in regard to Ballyrock's or its affiliates' overall responsibilities with respect to the client and other investment accounts including any instructions from the client's portfolio manager, which may emphasize, for example, speed of execution over other factors. Based on the factors considered, Ballyrock or its affiliates may choose to execute an order using electronic communications networks (ECNs), including algorithmic trading, crossing networks, direct market access and program trading, or by actively working an order. Other possibly relevant factors may include, but are not limited to, the following: price; the size and type of the transaction; the reasonableness of compensation to be paid, including spreads and commission rates; the speed and certainty of trade executions, including broker willingness to commit capital; the nature and characteristics of the markets for the investment to be purchased or sold, including the degree of specialization of the broker in such markets or investments; the availability of liquidity in the investment, including the liquidity and depth afforded by a market center or market-maker; the reliability of a market center or broker; the broker's overall trading relationship with Ballyrock or its affiliates; the trader's assessment of whether and how closely the broker likely will follow the trader's instructions to the broker; the degree of anonymity that a particular market or broker can provide; the potential for avoiding or lessening market impact; the execution services rendered on a continuing basis; the execution efficiency, settlement capability, and financial condition of the firm; arrangements for payment of fund expenses, if applicable; and the provision of additional brokerage and research products and services, if applicable.

The trading desks through which Ballyrock and its affiliates may execute trades are instructed to execute portfolio transactions on behalf of their clients based on the quality of execution without any consideration of Research and Brokerage Services (as defined below) the broker or dealer may provide. The administration of Research and Brokerage Services is managed separately from the trading desks, which means that traders have no responsibility for administering soft dollar activities.

In seeking best qualitative execution, Ballyrock or its affiliates may select a broker that uses a trading method, including algorithmic trading, for which the broker may charge a higher commission than its lowest available commission rate. Ballyrock or its affiliates also may select a broker that charges more than the lowest available commission rate available from another broker. Ballyrock or its affiliates may execute an entire transaction with a broker and allocate all or a portion of the transaction and/or related commissions to a second broker where a client does not permit trading with an affiliate of Ballyrock or in other limited situations. In those situations, the commission rate paid to the second broker may be higher than the commission rate paid to the executing broker.

If Ballyrock grants investment management authority to a sub-adviser, that sub-adviser, including FMR, will be authorized to provide the trade execution services described in the sub-advisory agreement.



## **Investment Research Products and Brokerage Services Furnished by Research Providers and Brokers**

Ballyrock or its affiliates may execute portfolio transactions with brokers that provide products and services that assist it in fulfilling their investment management responsibilities ("Research and Brokerage Services") in accordance with applicable law. Research and Brokerage Services that Ballyrock or its affiliates may have received during the last fiscal year include: economic, industry, company, municipal, sovereign (U.S. and non-U.S.), legal, or political research reports; market color; company meeting facilitation; compilation of securities prices, earnings, dividends and similar data; quotation services, data, information and other services; analytical computer software and services; and investment recommendations. In addition to receiving these Research and Brokerage Services via written reports and computer-delivered services, such reports may also be provided by telephone and in-person meetings with securities analysts, corporate and industry spokespersons, economists, academicians and government representatives and others with relevant professional expertise. Ballyrock or its affiliates may request that a broker provide a specific proprietary or third-party product or service. Some of these Research and Brokerage Services supplement Ballyrock's or its affiliates' own research activities in providing investment advice to their clients.

In addition, Research and Brokerage Services may include those that assist in the execution, clearing and settlement of securities transactions as well as other incidental functions (including, but not limited to, communication services related to trade execution, order routing and algorithmic trading, post-trade matching, exchange of messages among brokers or dealers, custodians and institutions, and the use of electronic confirmation and affirmation of institutional trades).

Although Ballyrock or its affiliates do not use client commissions to pay for products or services that do not qualify as Research and Brokerage Services, they may use commission dollars to obtain certain products or services that are not used exclusively in Ballyrock's or its affiliates' investment decision-making process ("mixed-use products or services"). In those circumstances, Ballyrock or its affiliates will make a good faith judgment to evaluate the various benefits and uses to which they intend to put the mixed-use product or service, and will pay for that portion of the mixed-use product or service that does not qualify as Research and Brokerage Services with their own resources (referred to as "hard dollars").

To the extent permitted by applicable law, brokers who execute client transactions may receive compensation in recognition of their Research and Brokerage Services that is in excess of the amount of compensation that other brokers might have charged. In connection with the allocation of client brokerage, Ballyrock or its affiliates make a good faith determination that the compensation paid to brokers and dealers is reasonable in relation to the value of the Research and Brokerage Services provided to Ballyrock or its affiliates, viewed in terms of the particular transaction for the client or Ballyrock's or its affiliates' overall responsibilities to that client or other clients for which Ballyrock or its affiliates have investment discretion; however, each Research and Brokerage Service received in connection with a client's brokerage may not benefit all clients. While Ballyrock or its affiliates may take into account the Research and Brokerage Services provided by a broker or dealer in determining whether compensation paid is reasonable, neither Ballyrock, its affiliates, nor their respective clients incur an obligation to any broker, dealer, or third-party to pay any Research and Brokerage Services (or portion thereof) by generating a specific amount of compensation or otherwise. Typically, these Research and Brokerage Services assist Ballyrock or its affiliates in terms of their overall investment responsibilities to a client or any other client accounts for which Ballyrock or its affiliates have investment discretion. Certain client accounts may use brokerage commissions to acquire Research and Brokerage Services that may also benefit other client accounts managed by Ballyrock or its affiliates.

Ballyrock's or its affiliates' expenses likely would be increased if they attempted to generate these additional Research and Brokerage Services through their own efforts or if they paid for these Research and Brokerage Services with their own resources. To minimize the potential for conflicts of interest, the trading desks through which Ballyrock or its affiliates may execute trades are instructed to execute portfolio transactions on behalf of clients based on the quality of execution without any consideration of Research and Brokerage Services the broker or dealer may provide. The administration of Research and

Brokerage Services is managed separately from the trading desks, which means that traders have no responsibility for administering soft dollar activities. Furthermore, certain of the Research and Brokerage Services that Ballyrock or its affiliates receive are furnished by brokers on their own initiative, either in connection with a particular transaction or as part of their overall services. Some of these Research and Brokerage Services may be provided at no additional cost to Ballyrock or its affiliates or have no explicit cost associated with them. In addition, Ballyrock or its affiliates may request a broker to provide a specific proprietary or third-party product or service, certain of which third-party products or services may be provided by a broker that is not a party to a particular transaction and is not connected with the transacting broker's overall services.

Ballyrock or its affiliates have arrangements with certain third-party research providers and brokers through whom Ballyrock or its affiliates effect client trades, whereby Ballyrock or its affiliates may pay with fund commissions or hard dollars for all or a portion of the cost of research products and services purchased from such research providers or brokers. If hard dollar payments are used, Ballyrock or its affiliates may still cause the client to pay more for execution than the lowest commission rate available from the broker providing research products and services to Ballyrock or its affiliates, or that may be available from another broker. Ballyrock or its affiliates view hard dollar payments for research and products and services as likely to reduce the client's total commission costs even though it is expected that in such hard dollar arrangements the commissions available for recapture and used to pay client expenses, as described below, will decrease. Ballyrock's or its affiliates' determination to pay for research products and services separately, rather than bundled with client account commissions, is wholly voluntary on Ballyrock's or its affiliates' part and may be extended to additional brokers or discontinued with any broker participating in this arrangement.

## **Other Considerations and Brokerage Arrangements**

### ***Commission Recapture***

Ballyrock or its affiliates may allocate brokerage transactions to brokers (who are not affiliates of Ballyrock) who have entered into arrangements with Ballyrock or its affiliates under which the broker, using a predetermined methodology, rebates a portion of the compensation paid by a client account to offset that client account's expenses. Not all brokers with whom the client account trades have been asked to participate in brokerage commission recapture.

Ballyrock or its affiliates recommend that clients do not request them to direct client portfolio transactions to specific brokers. Clients may nonetheless make such requests, subject to quality execution and provided that the broker is an approved counterparty of Ballyrock or its affiliates.

### ***Transactions with Certain Brokers***

Ballyrock or its affiliates may place trades with certain brokers, including NFS, with whom they are under common control, provided Ballyrock or its affiliates determine that these affiliates' trade execution abilities and costs are comparable to those of non-affiliated, qualified brokerage firms.

In addition, Ballyrock or its affiliates may place client trades with brokers that use NFS as a clearing agent.

### ***Transactions Among Clients***

Ballyrock or its affiliates may execute transactions between the clients they manage, as well as with certain other clients managed by their affiliates and by FIL Limited (FIL) or its affiliates.

## **Trade Allocation Policies**

### ***Bunched Trades***

It is generally Ballyrock's or its affiliates' practice, when appropriate, to combine, or "bunch," orders of various accounts, including those of its clients, its affiliates' clients and proprietary accounts, for order entry and execution. Bunched orders may be executed through one or more brokers. The allotment of trades among brokers is based on a variety of factors, which may include price, order size, the time of

order, the security and market activity. A bunched trade executed with a particular broker is generally allocated pro-rata among the accounts that are participating in the bunched trade until any account has been filled, after which the trade is allocated pro-rata among the remaining accounts. Each broker's execution of a bunched order may be at a price different than another broker's bunched order execution price for the same security.

### ***Allocation of Trades***

Ballyrock and its affiliates have established allocation policies for their various accounts (including proprietary accounts) and securities types (e.g., high income, fixed income) to ensure allocations are appropriate given their clients' differing investment objectives and other considerations. These policies also apply to initial public and secondary offerings. When, in Ballyrock's or its affiliates' opinion, the supply/demand is insufficient under the circumstances to satisfy all outstanding trade orders, the amount executed generally is distributed among participating accounts based on account asset size (for purchases), and security position size (for sales), or otherwise according to the allocation policies. Trades are executed by traders based on orders or indications of interest for clients, which are established prior to or at the time of a transaction. With certain exceptions, the trading systems contain rules that allocate trades on an automated basis, in accordance with its allocation policy. Generally, any exceptions to Ballyrock's and its affiliates' policies (i.e., special allocations) must be approved by senior trading and compliance personnel and documented.

Ballyrock's and its affiliates' trade allocation policies identify circumstances under which it is appropriate to deviate from the general allocation criteria and describe the alternative procedures. The trade allocation policies generally provide for minimum allocations based on market-defined minimum denominations. If a standard allocation would result in a client receiving a very small allocation (e.g., because of its small asset size), the client may receive an increased allocation to achieve a more meaningful allocation, or the client may receive no allocation. Ballyrock's and its affiliates' policies also provide for the execution of program trades and short sales notwithstanding the existence of active orders for individual securities on the trading desk, provided that consideration is given to whether the program trade or short sale might have a material effect on such other active orders.

The fixed income trade allocation policy provides that client accounts specializing in a particular type of security, such as single-state municipal bond funds, may receive an increased allocation of obligations that are tax-exempt within their State. For CDOs, the expected fully-invested size of the collateral portfolio as determined by reference to applicable legal documents is used as the basis for allocation during the warehouse period and for six months after the date of funding. The high income and fixed income allocation policies define the applicable net assets to be used in the allocation process generally by reference to each fund's assets managed by the high income or fixed income divisions, respectively, and by reference to certain security and portfolio types.

## **REVIEW OF ACCOUNTS**

Each portfolio manager is expected to review on a continuous basis the holdings in the accounts for which he or she is the portfolio manager. In all cases, portfolio managers may draw on FMR's large research and trading staff for support pursuant to sub-advisory agreements.

Investors in the CDOs that Ballyrock advises will typically receive monthly and quarterly reports regarding their investments from the independent trustee of each such CDO. Ballyrock reviews each of these reports and reconciles the information in the reports against its records before the reports are finalized and distributed to investors in the CDO. Among other things, the reports include the following information for a CDO: results of the CDO's coverage tests, collateral quality tests and portfolio concentration limits; summaries of investments in the CDO's portfolio and the CDO's cash positions; summaries of investments purchased and sold by the CDO; summaries of ratings changes on the CDO's underlying investments; and summaries of cash distributions made by the CDO.

In addition, the independent trustee of each such CDO will have daily access to the books and records regarding the CDO's investment portfolio.

## **CLIENT REFERRALS AND OTHER COMPENSATION**

Ballyrock or a related person does not, either directly or indirectly, compensate any person for client referrals.

## **CUSTODY**

Ballyrock does not have custody of client assets.

## **INVESTMENT DISCRETION**

Ballyrock or its affiliates generally have authority to determine which securities and other investments to purchase or sell, the total amount of such purchases and sales, and the brokers or dealers through which transactions are effected. However, with respect to each discretionary account, Ballyrock's and its affiliates' authority is subject to certain limits, including the applicable investment objectives, policies and restrictions set forth in each client's indenture and certain tax-related investment guidelines. These limitations may be based on a variety of factors, such as regulatory constraints, as well as policies imposed by a client, its governing body or the applicable trust indenture or other governing document(s), and may cause differences in commission rates.

## **VOTING CLIENT SECURITIES**

Ballyrock's advisory clients generally invest in dollar denominated loans, high yield debt securities, asset backed securities and/or synthetic securities. The Ballyrock CDOs generally do not purchase equity securities and, in many cases, are required to dispose of any equity securities it may acquire within a specific period of time.

In the event that Ballyrock does receive a proxy on equity securities that a client holds, Ballyrock's affiliate and sub-adviser to the CDOs it manages, FMR, will vote the proxy in accordance with its Proxy Voting Guidelines ("Guidelines"). The guidelines are reasonably designed to ensure proxies are voted in the best interest of clients and to resolve potential conflicts of interest. Potential conflicts generally may arise in connection with affiliated business arrangements or other relationships. FMR generally casts votes on behalf of client accounts by proxy at shareholder meetings of issuers in which FMR invests client assets.

Clients generally do not direct votes by Ballyrock. Clients may obtain information about how proxies are voted and may obtain a copy of FMR Co.'s proxy voting policies and procedures upon request.

## **FINANCIAL INFORMATION**

Ballyrock does not solicit prepayment of client fees. Furthermore, there are no financial conditions that are reasonably likely to impair Ballyrock's ability to meet any of its contractual commitments to its clients.

## **REQUIREMENTS FOR STATE-REGISTERED ADVISERS**

Ballyrock is not registered with any state securities authority.