

# Trustmark Investment Advisors, Inc.

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## Form ADV Part 2A – Disclosure Brochure

**March 31, 2011**

This brochure provides information about the qualifications and business practices of Trustmark Investment Advisors, Inc. If you have any questions about the contents of this brochure, please contact us at 601.208.7663 or [www.trustmarkinvestmentadvisors.com](http://www.trustmarkinvestmentadvisors.com). The information in this brochure has not been approved or verified by the United States Securities and Exchange Commission or by any state securities authority.

Additional information about Trustmark Investment Advisors, Inc. also is available on the SEC's website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).

Registration does not imply a certain level of skill or training.



## **Item 2: Material Changes**

On July 28, 2010, the United States Securities and Exchange Commission published “Amendments to Form ADV” which amends the disclosure document that we provide to clients as required by SEC Rules. This Brochure dated March 31, 2011, is a new document prepared according to the SEC’s new requirements and rules. As such, this Document is materially different in structure and requires certain new information that our previous brochure did not require.

In the future, this Item will discuss only specific material changes that are made to the Brochure and provide clients with a summary of such changes since our last annual update.

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## **Item 4: Advisory Business**

### **The Company**

Trustmark Investment Advisors, Inc. (TIAI) is a registered investment adviser with the Securities and Exchange Commission. It is a wholly-owned subsidiary of Trustmark National Bank (Trustmark Bank) and incorporated within the state of Mississippi. Operations commenced on June 1, 2001. Prior to 2001, investment management services were offered through Trustmark Bank.

Trustmark Corporation is a diversified financial services company and the parent company of Trustmark Bank. Trustmark Corporation is a publicly-traded company listed on NASDAQ and traded under the symbol TRMK.

### **Investment Services**

TIAI provides investment management services to a registered investment company and for Trustmark Bank's Trust Group. Clients of the Trust Group include individuals, institutions, foundations, endowments, and charitable organizations. TIAI offers equity and fixed income strategies and customized strategies for Trustmark Bank clients. Our portfolio strategies may include investments in common stocks, preferred stocks, exchange-traded funds, investment-grade and non-investment grade corporate bonds, U.S. Government and agency securities, commercial paper, convertible securities (including stocks and convertible corporate bonds), real estate investment trusts, structured instruments, open and closed-end investment companies, hedge funds, and master liability partnerships. (Item 8 provides more information about our investment strategies.) TIAI works with clients to accommodate client-specific restrictions on our investment strategies.

### **Wrap Fee Programs**

TIAI participates in wrap fee programs in which a third party vendor offers TIAI strategies to its existing clients. TIAI does not receive a fee from the third party vendor as an investment adviser in these wrap fee programs; however, Trustmark Bank (TIAI's parent company) does receive fees as part of its outsourced brokerage services arrangement with the third party vendor. (Item 8 describes how TIAI manages wrap fee programs under the Asset Allocation Process section.)

### **Assets Under Management**

TIAI will provide asset management services to its clients based upon the client's investment objectives, risk tolerances, and other suitability factors. TIAI had discretionary assets under management of approximately \$3.2 billion as of February 28, 2011.

## **Item 5: Fees and Compensation**

### **Mutual Funds**

TIAI receives investment advisory fees from its registered investment company client. These fees are paid monthly in arrears, pursuant to an investment advisory contract between TIAI and the registered investment company. TIAI does not receive fees in advance. The standard advisory fees can be found in the Performance Funds prospectus.

### **Other Fees or Expenses**

To avoid duplicating compensation, fees, and expenses, TIAI does not receive compensation, assess fees, or charge expenses for advisory services provided to Trustmark Bank clients or third party vendor clients in the wrap fee programs, pursuant to an administrative agreement between TIAI and Trustmark Bank. This agreement precludes Trustmark Bank from receiving fees for administrative and operational services it provides to TIAI to reduce potential conflicts of interest.

### **Additional Compensation**

TIAI and its employees do not accept compensation, including sales charges or service fees, from any person for the sale of securities or other investment products.

## **Item 6: Performance-Based Fees and Side-By-Side Management**

TIAI does not enter into advisory relationships for performance-based fees.

## **Item 7: Types of Clients**

TIAI's clients are The Performance Family of Mutual Funds and Trustmark Bank's Trust Group. Clients of Trustmark Bank's Trust Group include individuals, institutions, foundations, endowments, and charitable organizations. Trustmark Bank client accounts are opened and maintained by Trustmark Bank trust relationship managers. TIAI does not offer advisory services for separate accounts.

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

TIAI uses charting, fundamental, technical, and cyclical security analysis methods. TIAI uses long-term purchase and short-term purchase investment strategies.

### **Asset Allocation Process**

TIAI utilizes a tactical asset allocation model as a risk/return management tool. The basic premise behind the model is to maximize return and minimize risk through the use of low correlating assets. Combinations of these assets are molded by risk tolerances and constraints based on historical standard deviations, current risk premiums and projected (expected) returns.

In tactical asset allocation, the investor's risk tolerance and constraints are assumed to be constant over time. Therefore, it is the fluctuation of capital market conditions that lead to changes in the portfolio's asset mix. Changing market conditions create potential opportunities to capitalize on investing in different asset classes relative to others over time. Within each portfolio, TIAI may shift assets away from the neutral weighting of the portfolio (overweighting and underweighting certain asset classes relative to the benchmark) to seek to benefit from these changing market conditions.

TIAI's asset allocation process consists of an initial quantitative step of mean variance optimization based on Modern Portfolio Theory. A qualitative overlay is added to this process in which current economic and market conditions are analyzed for confirmation of results from the quantitative

analysis. Specifically, this includes technical and fundamental analysis of all asset classes and capital markets including, but not limited to, interest rate levels, price and relative strength trends, historical probabilities and economic conditions.

Any changes in asset allocation correspond directly with management’s sentiment for each asset class and are applied to each client portfolio. This process forms the basis of TIAI’s monthly Strategy Committee meetings, which consist of Executive Managers, Investment Managers, and Investment Specialists. Once changes are approved by the Committee, they are implemented on a monthly basis. Regular quarterly rebalancing of allocations is also performed to model portfolios in addition to the monthly asset allocation changes (if any).

**Equity Investments**

With respect to equities, TIAI endeavors to create an actively managed portfolio of sound companies, purchased at sensible prices, which are acting well in the stock market. Portfolios will typically contain 30 to 60 stocks of larger companies with seasoned management that offer established products and services.

Our process is illustrated in the graphic below.



### Equity Risks

The material risks associated with these strategies are:

Equity Market Risk – Overall stock market risks may affect the value of the investments in equity strategies. Factors such as U.S. economic growth and market conditions, interest rates, and political events affect the equity markets.

Management Risk – Our judgments about the attractiveness, value and potential appreciation of a particular asset class or individual security may be incorrect, and there is no guarantee that individual securities will perform as anticipated. The value of an individual security can be more volatile than the market as a whole, or our investment approach may fail to produce the intended results.

Small and Mid Cap Company Risk – Investments in small and mid cap companies may be riskier than investments in larger, more established companies. The securities of these companies may trade less frequently and in smaller volumes than securities of larger companies. In addition, small and mid cap companies may be more vulnerable to economic, market and industry changes. Because smaller companies may have limited product lines, markets or financial resources, or may depend on a few key employees, they may be more susceptible to particular economic events or competitive factors than larger capitalization companies.

Real Estate Risk – Real Estate Investment Trusts (REITS), although not a direct investment in real estate, are subject to the risks associated with investing in real estate. The value of these securities will rise and fall in response to many factors including economic conditions, the demand for rental property and changes in interest rates.

### Fixed Income Investments

TIAI's fixed income philosophy, whether taxable or non-taxable, is primarily one of prudent risk management: seeking to evaluate the prevailing interest rate landscape with particular attention on the risk associated with credit spreads and the impact of yield curve changes. We believe the fixed income portion of an allocation is not the place to assume additional risk, but where value can be added over the interest rate cycle through timely shifts in duration and credit exposure. Significant consideration is given to the present and future liquidity of the selected securities, as well as the current economic conditions.

### Fixed Income Risks

The material risks associated with this strategy are:

Fixed Income Market Risk – Fixed income securities increase or decrease in value based on changes in interest rates. If rates increase, the value of fixed income securities generally declines. On the other hand, if rates fall, the value of the fixed income securities generally increases.

Management Risk – Our judgments about the attractiveness, value, and potential appreciation of a particular asset class or individual security may be incorrect and there is no guarantee that individual securities will perform as anticipated. The value of an individual security can be more volatile than the market as a whole, and our judgments on the relative attractiveness of specific investments may fail to produce the intended results.

**Credit Risk** – There is a risk that issuers and counterparties will not make payments on the securities they issue. In addition, the credit quality of securities may be lowered if an issuer’s financial condition changes. Lower credit quality may lead to greater volatility in the price of a security which may affect liquidity and our ability to sell the security.

**Structured Instrument Risk** – Structured instruments may be less liquid than other debt securities, and the price of structured instruments may be more volatile. Although structured instruments may be sold in the form of a corporate debt obligation, they may not have some of the protection against counterparty default that may be available with publicly traded debt securities.

### **Investment Company Selection Methodology**

When evaluating mutual funds, TIAI focuses on identifying investment managers with a proven ability to maintain their disciplined approach through the economic cycle. Therefore, during our research process, we give more weight to managers with a consistent investment management approach and average returns compared to managers with historically high returns but with less identifiable investment methodologies.

TIAI’s mutual fund analysis focuses on both risk and return. Risk is evaluated in several ways. We identify risk on an absolute level, on a relative basis compared to its best-fit index, by a portfolio holdings perspective, from an organizational basis, and from a negative returns standpoint. We believe identifying, monitoring, and evaluating risk is at least as important as historical returns.

Historical returns are analyzed on an absolute level, downside risk basis, and on a relative basis compared to its best-fit index. Furthermore, the returns are evaluated over different holding periods and over rolling periods in an effort to reduce end-point sensitivity.

Historical returns provide us with both the risk and return numbers for our quantitative analysis. We are cognizant that historical returns are not good predictors of future performance; however, historical return numbers are the best source available to evaluate mutual funds. Therefore, as the risk and return characteristics of a specific fund change over time, all else equal, TIAI’s opinion of that investment option may fluctuate to reflect the fund’s profile variation.

This philosophy translates into a viable investment methodology first through a quantitative screening process that narrows a potential universe to only those select funds that meet the specific criteria. Screening criteria centers around finding stable managers who provide above average, long-term, risk-adjusted returns in a consistent and proven manner. Characteristics that are considered also include, but are not limited to, style consistency, manager tenure, downside risk, expense ratios, and peer relative performance.

The funds that meet these initial screens then move to the final step in the selection process involving a more detailed qualitative analysis. This piece is comprised of conversations with managers and investment teams regarding investment process and methodology as well as a more detailed analysis of the fund itself.



## **Item 9: Disciplinary Information**

TIAI is required to disclose any material information about legal or disciplinary actions that would be material to your assessment of TIAI and the integrity of its management. TIAI has no disciplinary information to disclose.

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

TIAI is a wholly-owned subsidiary of Trustmark Bank, a national banking association headquartered in Jackson, Mississippi. Trustmark Corporation is a diversified financial services company and the parent company of Trustmark Bank. Trustmark Corporation is a publicly-traded company listed on NASDAQ and traded under the symbol TRMK. Associated persons of TIAI may also be associated with Trustmark Bank or its affiliate, Fisher Brown Bottrell Insurance, Inc. Trustmark Bank has contracted with TIAI to obtain investment management services on behalf of itself in its fiduciary capacity. TIAI is prohibited from giving any opinions and/or making any recommendations on Trustmark Corporation stock (TRMK).

TIAI serves as investment adviser to the Performance Family of Mutual Funds, an open-ended registered investment company. These advisory services are supervised by the Board of Trustees of the Performance Funds Trust, all of whom are independent of TIAI and its affiliates. TIAI has deemed that its services to the Performance Funds do not create material conflicts of interest between TIAI, Trustmark Bank and other entities.

TIAI has contracted with Orleans Capital Management, a registered investment adviser, as a sub-advisor to manage the Performance Strategic Dividend Fund for a fee. TIAI has contracted with Institutional Services Group, LLC, a registered investment adviser, as a sub-advisor to manage specific Trustmark Bank fixed-income accounts for a fee. Each time TIAI decides to employ a sub-adviser, TIAI will perform initial due diligence that covers compliance controls in all areas that may impact TIAI's clients. TIAI does not receive compensation from any of its sub-advisers.

TIAI serves as investment adviser to asset allocation program models sponsored by UVEST Financial Services Group (UVEST) for existing UVEST clients. UVEST representatives maintain primary contact with program clients; however, TIAI will participate in joint consultation with a program client and UVEST representative to assist in satisfying a client request. In these asset allocation models, TIAI recommends Performance Funds, of which TIAI is the investment adviser. TIAI has a potential conflict of interest when recommending, selecting, monitoring and considering the removal of Performance Funds, because TIAI may have an incentive to favor Performance Funds over those whose inclusion in the Programs might be expected to result in total compensation to TIAI. These conflicts of interest are also present when TIAI considers the removal of Performance Funds from a model portfolio or the reductions of model allocations to advised funds. This potential conflict of interest is addressed in TIAI's investment methodologies (see Item 8 for more information). The Performance Funds are required to undergo a similar process of investment company selection.

Investment services are offered by Trustmark Bank and/or UVEST Financial Services Group, Inc. Trustmark Bank has contracted with UVEST Financial Services Group, Inc. to provide broker/dealer services. UVEST is not a related entity.

TIAI does not use the services of any solicitors to solicit business on its behalf.

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

### **Code of Ethics and Personal Trading**

TIAI has adopted a Code of Ethics for all supervised persons of the firm describing its high standard of business conduct and fiduciary duty to its clients. The Code of Ethics includes provisions relating to the confidentiality of client information, a prohibition on insider trading, restrictions on the acceptance of significant gifts and the reporting of certain gifts and business entertainment items, and personal securities trading procedures, among other things. All supervised persons at TIAI must acknowledge the terms of the Code of Ethics annually or as amended.

The Code of Ethics is designed to assure that the personal securities transactions, activities and interests of the employees of TIAI will not interfere with (i) making decisions in the best interest of advisory clients and (ii) implementing such decisions while, at the same time, allowing employees to invest for their own accounts. Under the Code, certain classes of securities have been designated as exempt transactions, based upon a determination that these would materially not interfere with the best interest of TIAI's clients. In addition, the Code requires pre-clearance of transactions over a certain dollar amount and restricts trading in close proximity to client trading activity. Nonetheless, because the Code of Ethics in some circumstances would permit employees to invest in the same securities as clients, there is a possibility that employees might benefit from market activity by a client in a security held by an employee. Employee trading is monitored under the Code of Ethics to reasonably deter and detect conflicts of interest between TIAI and its clients.

TIAI's clients or prospective clients may request a copy of the firm's Code of Ethics by calling the firm's Chief Compliance Officer, Cora J. Peavie, at 601.208.7476.

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

TIAI is the investment adviser to the Performance Family of Mutual Funds, and Trustmark Bank has a material financial interest in the Performance Funds. TIAI recommends the purchase or sale of Performance Funds for Trustmark Bank trust client accounts and asset allocation programs. This presents a conflict of interest. To address this conflict of interest, the recommendation of Performance Funds by TIAI must meet the selection criteria discussed in Item 8 under *Investment Company Selection Methodology*.

TIAI allows principal and agency cross securities transactions for client accounts in accordance with SEC rule 206(3) and rule 17a-7 and 8 under the Investment Company Act of 1940.

### **Trade Errors**

Trading errors are corrected either by selling the security or by purchasing the required security in the trade errors' account making the affected account whole or correcting the total position in the security. TIAI will incur all losses realized due to correcting a trading error. Any gains attributable to an individual account will be credited to the affected account. Offsetting credits to clear these gains from the trading errors' account will be posted to the client's account.

If the trading error does not affect an individual account but affects Trustmark Bank's total position in the security, the gain will be credited to the trade errors' account. This type of trading error should be infrequent.

For mutual fund portfolios, trading errors may be corrected in the trade errors' account if the error is corrected prior to the trade posting to the mutual fund portfolio books. If a trading error is identified after the trade posts to the mutual funds portfolio books, the correction must be made in the mutual fund portfolio rather than the trade errors' account. There is no netting of gains and losses realized from the correction of trading errors on the books of mutual fund portfolios.

## **Item 12: Brokerage Practices**

### **Brokerage Selection and Best Execution**

TIAI seeks to obtain quality execution at favorable security prices through responsible brokers and dealers and, in the case of agency transactions, at competitive commission rates. The Investment Policy Committee selects and retains brokers to execute clients' transactions based on the broker's execution capabilities, sound financial condition and quality of research material and services. Selected brokers are named on a written approved broker list that is used by the trader and portfolio managers. All recommended brokers are evaluated at least annually.

TIAI's Investment Policy Committee evaluates the performance of selected brokers/dealers executing transactions quarterly. Under certain conditions, higher brokerage commissions may be paid in return for brokerage and research services. As a general practice, over-the-counter orders are executed with market makers or on an agency basis through an electronic communications network. In selecting among market makers, TIAI generally seeks to select those it believes to be actively and effectively trading the security being purchased or sold.

TIAI uses a trade execution management system to ensure proper trade management, including fair order allocation and best execution. Fixed income portfolio managers generally execute their own trades with approved brokers.

Controls are in place to monitor best execution of security transactions which includes the review of trades for best execution. TIAI does not seek the lowest available commission rate when it is believed that a broker or dealer charging a higher commission rate would offer greater reliability or provide better price or execution.

### **Research and Other Soft Dollar Benefits**

Certain brokers and dealers who provide quality brokerage and execution services also furnish research services to TIAI directly or through third parties. Although trades from certain clients may not have generated commissions to brokers who provide this research, the research is used for all clients. Occasionally, certain brokers may provide invitations to attend conferences or meetings with management representatives of issuer or with other analysts and specialists. TIAI is not required to generate a specified level of brokerage commissions to receive research services. However, it benefits from the research purchased with the clients' trade commissions because it does not have to pay for these services. This understanding is known as a soft dollar arrangement. In 2010, TIAI used soft dollars to purchase the following items:

- Platform for equity, fixed income, and economic research.
- Platform for quotes, news, and company information such as earning estimates, to track daily performance, and to maintain quantitative models for equity selection.
- Stress test analytics for portfolios.
- Market research and research on equities.
- General news services.
- Data on investment offerings.
- Exchange service.

This software arrangement creates a conflict of interest because TIAI may have an incentive to select or recommend brokers based on who provides research, products, and services rather than on who provides the best execution. This conflict of interest is addressed by a periodic review of commissions and soft dollar accounts by TIAI's Investment Policy Committee.

When selecting a broker/dealer to use for the execution of trades on behalf of clients, the portfolio managers and trader consider such factors as quality of execution, including the price to be paid, access to markets, timely and accurate written confirmations, and the broker/dealer record of good and timely delivery and payment on trades; ability to handle block trades; knowledge of the market, specific industries and securities; and the financial condition for the broker/dealer. It is not the policy of TIAI to seek the lowest available commission rate when it is believed that a broker or dealer charging a higher commission rate would offer greater reliability or provide better price or execution. TIAI does not direct client transactions to a particular broker/dealer in return for soft dollar benefits received.

### **Directed Brokerage**

TIAI allows Trustmark Bank trust clients to designate brokers through which transactions are to be effected (directed brokerage). Transactions for such trust clients generally will be placed after orders for clients for which TIAI has full investment discretion. When Trustmark Bank trust clients designate brokers or dealers, it may not be possible for TIAI to obtain for such clients the lower rates which might be attainable if TIAI had full discretion in the selection of the executing firm or to permit the client to participate in volume discounts for batched transactions of fully discretionary clients. Trustmark Bank trust clients who direct brokerage may also incur other transaction costs or greater spreads or receive less favorable net prices on transactions for their accounts than might otherwise be the case.

Generally, purchase and sale orders are executed on a first-in/first-out basis. Purchase or sale orders for the same security that are received at approximately the same time may be blocked or aggregated for more efficient execution. When block trades are affected, the price is to be averaged among the accounts participating in the transaction if the order is executed at more than one price.

TIAI authorizes combining purchase or sale orders (“bunching” or “blocking” trades) for more than one account where blocking the trades appears to be potentially advantageous for each participating account (e.g., for the purpose of reducing brokerage commissions or obtaining a more favorable transaction price). TIAI will aggregate transaction orders only if it believes that the aggregation is consistent with its duty to seek best execution for customer trades. When block trades are done for a new issue or secondary market trade in an equity security, TIAI shall adhere to the following objectives:

- Fairness to all participating customers;
- Timely and efficient allocation to the participating accounts; and
- Creation of detailed records reflecting the execution of the trades and the allocations made to the participating customers in compliance with TIAI’s procedures.

### **Item 13: Review of Accounts**

Reviews are performed on a continuous basis of the Performance Family of Mutual Funds by Portfolio Managers of TIAI and the Performance Funds’ Fund Administration’s portfolio compliance area for consistency with fund objectives and restrictions. TIAI submits reports quarterly to the Board of Trustees of the Performance Funds. The Performance Funds’ Fund Administration’s portfolio compliance area notifies the Performance Funds’ Chief Compliance Officer and portfolio manager of reportable incidents of non-compliance.

Trustmark Bank client accounts are opened and maintained by Trustmark Bank trust relationship managers. As a part of maintaining accounts, these trust relationship managers perform account reviews at least annually. TIAI assists in these account reviews by assessing the Trustmark Bank trust client’s investment goals and objectives, the strategy that has been employed to meet the goals and objectives, and the investments held in the trust account. More frequent reviews may be triggered by changes in the trust client’s goals and objectives or changes in market conditions that warrant a broad review of the strategies employed in trust client accounts or investments held in the accounts. TIAI continuously reviews and supervises the investment activity in the investment portfolios for which TIAI serves as the investment adviser.

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

Trustmark Bank compensates its relationship managers for new business. Occasionally, if an associate of TIAI assists in the sales process, the associate may receive compensation from Trustmark Bank.

TIAI does not compensate employees of Trustmark Bank or its affiliates for referrals.

## **Item 15: Custody**

TIAI does not provide custodial services to its clients. However, client assets are held with an affiliated qualified custodian and other qualified custodians. Clients should receive at least quarterly statements from the qualified custodian that holds and maintains clients' investment assets. TIAI urges you to carefully review such statements and compare such official custodial records to information we provide. The information in our reports may vary from custodial statements based on accounting procedures, reporting dates, or valuation methodologies of certain securities.

## **Item 16: Investment Discretion**

TIAI accepts discretionary authority to manage the assets of our clients. We observe investment limitations and restrictions that are outlined in clients' investment management agreements.

## **Item 17: Voting Client Securities**

TIAI, absent compelling reasons why a proxy should not be voted, votes all proxies relating to client securities except those held in the portfolios of the wrap fee programs and Trustmark Corporation stock. TIAI does vote proxies for the Performance Funds and Trustmark Bank trust clients.

TIAI has adopted Policies and Procedures with respect to voting proxies. When applicable, proxies are voted in the best interest of the client accounts. The determination of the interest of a client account in a proposal presented by proxy is the effect, if any, the proposal could have on the current or future value of the investment.

TIAI has contracted with third-party vendors to vote securities held by its clients. Third-party vendors have been provided proxy voting guidelines and thresholds. The third-party vendors will process the votes of all proxies following these guidelines and thresholds. If proxies are outside of standing guidelines or thresholds, third-party vendors are to notify TIAI by mail. After receipt of notification and researching this proxy, TIAI will vote it in the best interest of the shareholders.

Any conflicts of interests identified by proxy voting vendors, relationship managers and or portfolio managers will be directed to the chairperson of the Investment Policy Committee for review and resolution.

A copy of TIAI's proxy voting policies, procedures, and guidelines is available by calling the firm's Chief Compliance Officer, Cora J. Peavie, at 601.208.7476. Clients may also obtain information from TIAI about how TIAI voted any proxies on behalf of their account(s).

## **Item 18: Financial Information**

Registered investment advisers are required in this Item to provide you with certain financial information or disclosures about TIAI's financial conditions.

TIAI has no financial commitment that impairs its ability to meet contractual and fiduciary commitments to clients and has not been the subject of a bankruptcy proceeding.