



Form ADV Part 2A: Firm Brochure

Quantitative Management Associates LLC

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This brochure provides information about the qualifications and business practices of Quantitative Management Associates LLC (QMA). If you have any questions about the contents of this brochure, please contact us at 973.367.7669 and/or clark.pellington@prudential.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.

QMA is a registered investment adviser. Registration of an investment adviser does not imply any level of skill or training.

Additional information about QMA is also available on the SEC's website at www.adviserinfo.sec.gov.

Item 2 – Material Changes

In July 2010, the United States Securities and Exchange Commission (SEC) adopted amendments to Form ADV. These amendments substantially revised the disclosure document (Part II of Form ADV, also known as the brochure) that SEC-registered investment advisers provide to clients and prospective clients. This brochure dated March 31, 2011 is a new document that we have prepared in accordance with the SEC's new requirements and rules. It is materially different in structure from our prior brochures and includes information that addresses new content requirements.

In the future, this section of our brochure will highlight and discuss only specific material changes that have been made to our brochure since its last annual update.

Previously, we either offered to deliver or delivered our brochure to our clients on at least an annual basis. In the future, consistent with the new SEC rules, we will deliver, within 120 days after our fiscal year end, either our current brochure, including a summary of any material changes since the brochure's last annual update, or a separate summary of those material changes. If we deliver a separate summary of material changes, we will offer to provide our current brochure without charge, and will instruct our clients as to how to obtain it.

Currently, our brochure may be requested by contacting Clark Pellington, our Chief Compliance Officer, at 973.367.7669 or clark.pellington@prudential.com.

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Item 4 – Advisory Business

Our Firm

Quantitative Management Associates LLC (QMA) is an SEC-registered investment adviser organized as a New Jersey limited liability company. When we use the terms “we,” “us” and “our” in this brochure, we are referring to QMA.

Our investment team began managing U.S. equity accounts for institutional clients in January 1975. For many years, the team operated as a unit within Prudential Investment Management, Inc. (PIM), which is one of the asset management companies of Prudential Financial, Inc. (Prudential Financial). Subsequently, QMA became a wholly-owned subsidiary of PIM and an investment adviser registered with the SEC. The team has conducted its investment management activities as QMA since July 2004.

QMA is an indirect, wholly-owned subsidiary of Prudential Financial, a publicly held company (NYSE Ticker "PRU").

In addition to being a registered investment adviser, QMA is also a member of the National Futures Association and is registered as a commodity trading adviser with the Commodity Futures Trading Commission.

Our Advisory Business in General

QMA offers a broad array of advisory services, including active and passive equity investment management as well as asset allocation strategies that invest across a range of asset classes.

- **Our Quantitative Processes.**

We specialize in the utilization of quantitative methods to guide investment decisions and employ both proprietary and non-proprietary analytical tools, or “models,” to help guide our investment choices. Specific models vary with the corresponding investment strategy. For example, models range from straightforward algorithms intended to help our index strategies replicate benchmark indices to more complex models that help identify attractive individual securities and to combine them into portfolios underlying actively managed equity strategies. Our proprietary quantitative models are our intellectual property. Although many of our investment decisions derive primarily from the output of our models, our portfolio managers apply oversight and judgment to that output.

We believe that ongoing research is the cornerstone of a successful investment organization and we are continually seeking ways to enhance our investment processes. As a result of our ongoing in-house research, the factors taken into account by our models may change from time to time. We consider these research-based enhancements and changes to be a normal part of our investment processes.

- **Our Advisory Services.**

We offer a variety of active and passively managed (commonly referred to as indexing) equity strategies managed against several US, non-US and custom benchmarks. Some strategies may take both long and short positions in individual securities depending upon the specific investment objective and client directives. As described below under “Customization of our Advisory Services,” we do not believe that “one size fits all,” and strive to meet the specific needs of each institutional and subadvised client.

In addition to strategies that emphasize individual security selection, we also provide asset allocation services to both institutional clients and to certain affiliated funds. These strategies allocate assets among many asset classes and management styles in accordance with client guidelines and our evaluations of their corresponding investment potential. Depending upon investment objectives, these asset classes may include publicly traded equity and fixed-income securities, as well as real estate, commodities and non-traditional asset classes. Affiliated investment advisers or third parties may manage some portions of the assets held in these portfolios. (See Item 10 for additional information regarding our relationships with affiliated entities.)

We also offer tailored solutions to meet client-specific risk-return objectives by structuring combinations of derivatives and non-derivative securities. For example, we offer a strategy designed to provide upside equity participation, while attempting to reduce downside risk over the course of a market cycle, by investing in a combination of fixed-income securities as well as options and financial futures.

Customization of our Advisory Services

Our investment management agreements and sub-advisory agreements with clients typically include investment guidelines that are negotiated to incorporate mutually acceptable terms. Under these agreements, clients may impose limitations on our investment positions. The investment guidelines may, for example, restrict the types of securities (such as derivatives or interests in commingled funds) in which we invest for the client. They may prohibit us from investing in particular issuers or industries. They may limit the percentage of portfolio assets that we may invest in single issuers, types of securities or industries. They may limit the amount of cash that we can hold in the portfolio. A client may also require us to comply with the client’s investment policies and procedures applicable to its external investment managers. On occasion, in our discretion, we may tailor certain features of our models and risk parameters at the request of a client with the objective of achieving a client-specific investment goal.

Certain Non-Discretionary Advisory Services

We do not currently participate in any wrap fee programs, but we do provide certain investment advisory services to an unaffiliated managed account program sponsor on a non-discretionary basis. These services consist of the furnishing of model portfolios in various strategies, which the program sponsor may choose to employ in its management of accounts under one or more managed account programs. We do not effect or arrange for the purchase or sale of any securities in connection with these services. The program sponsor charges a single program fee to its clients for all services provided under the program, and pays its advisers, including QMA, a portion of that fee for the services rendered to the program sponsor. We seek to manage these non-discretionary model portfolios and our discretionary institutional accounts in a similar manner within the same strategy.

We also offer non-discretionary asset allocation models on affiliated and unaffiliated platforms. The platform sponsors make our models available to investors, generally through intermediaries such as financial planners. We do not have discretion over the implementation of these models in individual investor portfolios.

Our Assets Under Management

As of December 31, 2010, our assets under management were as follows:

- Discretionary: \$79,735,282,170
- Nondiscretionary: \$0

Note that we do not include assets managed by other persons based on non-discretionary models provided by QMA.

Item 5 – Fees and Compensation

Advisory Fees

We negotiate fees with our clients individually. Fees paid by clients vary based on the type of advice provided and other factors such as the size of the client account, the investment strategy, the relationship with the client and the required level of service. Fees may also differ based on account type. For example, fees for commingled vehicles, including those that we subadvise, may differ from fees for single client accounts. Since fees are negotiable, clients with similar investment objectives or strategies may pay different fees.

We are generally compensated for our advisory services under both asset-based fee schedules and performance-based fee schedules. Our asset-based fees are customarily offered in tiered schedules with breakpoints linked to the amount of assets in the account, so that the fee rate decreases as the assets increase. In circumstances where we manage multiple accounts for a single client, we may, in our discretion, agree with the client to aggregate the client's assets across accounts to enable the client to benefit from a lower fee tier. (See also our discussion in Item 6 below of asset-based fees and performance-based fees.)

As described in Items 4 and 8, some of our institutional clients have engaged us to assist them in determining an appropriate asset allocation framework, consistent with their funds available for investment, business needs, risk tolerance and expectations of returns. Once allocation decisions are made for a client, we allocate the client's assets to commingled vehicles corresponding to the asset classes selected. These vehicles are managed primarily by us or our affiliates, although we may also allocate to unaffiliated vehicles. (See also Item 10 with respect to conflicts of interests related to our affiliations.) In most of these arrangements, except with respect to real estate investments, our clients typically pay us an asset allocation fee but do not pay the fees of the underlying vehicles to which we allocate their assets. We will pay the fees of the managers of the underlying vehicles out of our asset allocation fee. Our asset allocation fee is customarily asset-based, but may be another negotiated type of fee. When we allocate assets to real estate investment strategies, each manager of the real estate investment vehicle (affiliated and unaffiliated) charges its fee to the asset allocation client separately. We do not charge an asset allocation fee on assets that we allocate to affiliated real estate strategies, but we do charge an asset allocation fee on assets allocated to unaffiliated real estate strategies.

Our typical asset allocation fee schedule for the services described in the preceding paragraph is as follows:

- 65 bps on the first \$10 million
- 50 bps on the next \$15 million
- 40 bps on the next \$75 million
- 30 bps thereafter.

In addition to the asset allocation services we provide to our institutional clients, we also offer non-discretionary asset allocation models to affiliated and non-affiliated platform sponsors, as noted in Item 4. For these models, we receive a fee from the platform sponsors, which may be an asset-based fee, a fixed fee or another negotiated type of fee.

Payment of Fees

Depending on the client's preference, we either bill a client for our fees or deduct fees from the client's account. Asset-based fees are typically payable either monthly or quarterly in arrears. Performance-based fees, if earned, are payable after the calculation period for such fees.

We do not require or solicit clients to pay advisory fees in advance. If a client were to pay advisory fees in advance and the client's advisory contract were to terminate before the end of a billing period, we would refund any unearned, prepaid fees on a pro rata basis.

Other Amounts Payable by Clients

Our advisory fees are the only amounts payable by clients to QMA. Clients are generally responsible for other fees and expenses related to their accounts, including custodian fees, brokerage fees and other transactions costs. (See Item 12 for a discussion of our policies regarding the selection of broker-dealers.)

Other Compensation

We do not receive any compensation related to the sale of securities or other investment products. Our supervised persons do not receive any compensation directly related to the sale of securities or other investment products, but the sale of our advisory services or interests in funds we manage may be considered in determining the compensation of our sales personnel. Any such compensation would be payable by QMA and not our clients or investors in the funds.

Item 6 – Performance Based Fees and Side-by-Side Management

Performance-Based Fees

As described above in Item 5, we negotiate fees with our clients individually. While the majority of our fees are asset-based, we do accept performance-based fees at the request of a client in some of our strategies. Asset-based fees are calculated based on the value of a client's portfolio at periodic measurement dates or over specified periods of time. Performance-based fees are generally based on a share of the capital appreciation of a portfolio, and may offer greater upside potential to an investment manager than asset-based fees, depending on how the fees are structured. Most of our performance-based fees are derived from the percentage by which we outperform the benchmark against which the client's portfolio is measured. We will generally be entitled to be paid a portion of that percentage, although the formulas and specifics of these negotiated fees vary. Our performance-based fees also customarily include an asset-based component, which we collect regardless of the performance of the account.

Side-by-Side Management of Accounts and Related Conflicts of Interest

We manage accounts with asset-based fees alongside accounts with performance-based fees. This side-by-side management can create an incentive for us and our investment professionals to favor one account over another. Specifically, we have the incentive to favor accounts for which we receive performance fees, and possibly take greater investment risks in those accounts, in order to bolster performance and increase our fees.

Other types of side-by-side management of multiple accounts can also create incentives for us to favor one account over another. Examples are detailed below, followed by a discussion of how we address these conflicts.

- **Long Only/Long-Short Accounts**

We manage accounts that only allow us to hold securities long as well as accounts that permit short selling. We may, therefore, sell a security short in some client accounts while holding the same security long in other client accounts, creating the possibility that we are taking inconsistent positions with respect to a particular security in different client accounts.

- **Compensation/Benefit Plan Accounts**

We manage certain funds whose performance is considered in determining long-term incentive plan benefits for certain investment professionals. Investment professionals involved in the management of those funds have an incentive to favor them over other accounts they manage in order to increase their compensation. Additionally, our investment professionals may have an indirect interest in those funds if the funds are

chosen as options in their 401(k) or deferred compensation plans offered by Prudential. (See description in Item 11 of our compensation of investment professionals.)

- **Proprietary Accounts**

We manage accounts on behalf of our affiliates as well as unaffiliated accounts. We could have an incentive to favor accounts of affiliates over others.

- **Non-Discretionary Accounts or Models**

We provide non-discretionary model portfolios to some clients and manage other portfolios on a discretionary basis. The non-discretionary clients may be disadvantaged if we deliver the model investment portfolio to them after we initiate trading for the discretionary clients, or vice versa.

- **Large Accounts**

Large accounts typically generate more revenue than do smaller accounts. As a result, a portfolio manager has an incentive when allocating scarce investment opportunities to favor accounts that pay a higher fee or generate more income for us.

- **Securities of the Same Kind or Class**

We may buy or sell, or may direct or recommend that one client buy or sell, securities of the same kind or class that are purchased or sold for another client, at prices that may be different. We may also, at any time, execute trades of securities of the same kind or class in one direction for an account and in the opposite direction for another account, due to differences in investment strategy or client direction. Different strategies affecting trading in the same securities or types of securities may appear as inconsistencies in our management of multiple accounts side-by-side.

How We Address These Conflicts of Interest

The conflicts of interest described above with respect to our different types of side-by-side management could influence our allocation of investment opportunities as well as our timing, aggregation and allocation of trades. We have developed policies and procedures designed to address these conflicts of interest.

In keeping with our fiduciary obligations, our policies with respect to allocation and aggregation are to treat all of our accounts fairly and equitably. (See Item 12 for additional information regarding our trade aggregation and allocation policy.)

Our compliance procedures with respect to these policies include independent monitoring by our compliance unit of the timing, allocation and aggregation of trades and the allocation of investment opportunities. These procedures are designed to detect patterns and anomalies in our

side-by-side management and trading so that we may take measures to correct or improve our processes. Our trade management oversight committee, which consists of senior members of our management team, reviews trading patterns on a periodic basis.

We typically rebalance each portfolio on a regular schedule. We seek to aggregate trades for all portfolios rebalanced on any given day, where appropriate and consistent with our duty of best execution. Orders are generally allocated at the time of the transaction, or as soon as possible thereafter, on a pro rata basis equal to each account's appetite for the issue when such appetite can be determined. As mentioned above, our compliance unit performs periodic monitoring to determine that portfolios are rebalanced within the expected time frame.

Our investment strategies generally require that we invest our clients' assets in securities that are publicly traded and highly liquid. We generally do not participate in initial public offerings. These factors significantly reduce the risk that we could favor one client over another in the allocation of investment opportunities.

With respect to our management of long-short and long only accounts, the security weightings (positive or negative) in each account are always determined by a quantitative algorithm. An independent review is performed by the compliance unit to assess whether any such positions would represent a departure from the quantitative algorithm used to derive the positions in each portfolio. Our review is also intended to confirm that if we have sold a security short in one portfolio, we did not overweight the same security in another portfolio, so that our view of a security is consistent across portfolios.

Item 7 – Types of Clients

Our clients currently include corporate pension and profit-sharing plans, Taft-Hartley plans, charitable institutions, foundations, endowments, municipalities, trusts, registered mutual funds and their investment managers, collective and common trusts, insurance companies with respect to their separate accounts, sovereign funds, foreign funds such as UCITs, and other U.S. and international institutions. We provide our services to both affiliated and non-affiliated clients. Our minimum account size varies by product, investment vehicle and by the characteristics of the mandate. Single client accounts have higher minimums than investments in commingled vehicles.

Item 8 –Methods of Analysis, Investment Strategies and Risk of Loss

Our Methods of Analysis and Investment Strategies

We offer an array of investment strategies that fall under four broad categories:

- Actively managed equity;
- Equity indexing;
- Asset allocation; and
- Structured strategies.

Our investment strategies are primarily quantitative and portfolios are team-managed. Dedicated investment management teams use proprietary and non-proprietary computer-based models to implement investment strategies. Investment models vary across investment strategies as discussed below.

Actively managed equity strategies have specific benchmarks. These benchmarks include large cap, mid cap, small cap, all cap, international, global, emerging markets, investment style and custom indices. Models are tailored to specific benchmarks and investor risk/return profiles. Our models typically consist of two elements. The first element involves assessing the investment potential of the stocks in our selection universe, while the second element deals with portfolio construction. These are discussed in the following sections.

- **Stock Evaluation**

Stock evaluation models consider quantifiable attributes that we believe influence future performance. Factors considered and the emphases placed on them are proprietary and vary with portfolio benchmark and specific investment strategy and may change over time. For example, our value-oriented strategies, for which performance is measured against specific value stock indices, emphasize certain measures of valuation. Core-oriented equity strategies emphasize a variety of factors in addition to valuation depending upon the type of stock being considered. Security selection universes also vary with benchmark and strategy. Our models typically evaluate over 7000 domestic and international stocks each day.

- **Portfolio Construction**

Portfolio construction methods depend upon investment objective and may be rules-based (such as holding approximately equally-weighted positions in securities that our evaluation models rate highly), or they may use complex portfolio construction techniques, such as mean-variance optimization. The output of these portfolio construction models is reviewed by portfolio managers before being implemented. Portfolios are rebalanced periodically with frequencies that vary with market conditions and investment objectives. Portfolios may also consist of small, or large active positions in varying numbers of stocks depending upon the corresponding investment objective.

Typically, portfolios with more conservative objectives hold a larger number of small active positions, while those with more aggressive objectives may hold larger active positions in fewer individual securities. Depending upon objectives, some portfolios may also hold derivative instruments, or ETFs and similar investment vehicles. In most cases, these instruments are used to manage uninvested cash. Additionally, depending upon investment objectives and guidelines, some strategies may take both long and short positions in individual securities. Positions in portfolios reflect both our evaluation of a stock's potential investment merit as well as their expected contribution to portfolio risk.

- **General Portfolio Management**

Portfolio performance and characteristics are reviewed regularly by a designated portfolio manager using a variety of performance attribution, risk monitoring and portfolio management tools and reports. Portfolio construction tools consist of a combination of proprietary and non-proprietary computer programs. Portfolio managers are responsible for reviewing model-recommended trades for reasonableness, adherence to portfolio guidelines and consistency with the corresponding investment strategy. Additionally, the investment management team uses a number of tools to periodically review the general effectiveness of the underlying investment processes.

Specific Strategies

- **Actively Managed Equity**

Our primary actively managed equity strategies include quantitative core equity and value equity.

- Quantitative core equity employs a proprietary quantitative stock evaluation process and a proprietary portfolio construction model. Portfolios are managed against specific benchmarks that are agreed upon in advance with institutional clients. The underlying approach emphasizes stocks that are attractively rated on a number of quantifiable attributes such as valuation and accounting-based measures. Portfolios are constructed using a portfolio optimization algorithm. Risk is managed by limiting certain deviations from benchmark characteristics and holdings. The quantitative core equity approach is applied to a number of domestic and international benchmark indices. Although the approach is largely quantitative, the portfolio management team may on occasion deviate from model recommendations.
- Value equity employs a separate algorithm – one that primarily emphasizes stocks that are cheap based on proprietary valuation measures. Risk is managed by limiting certain factor exposures, such as industries and individual stocks. Some judgment may be applied when estimating valuations and when constructing investment portfolios.

- **Equity Indexing**

Our equity indexing strategies attempt to replicate the performance and characteristics of U.S. or international equity indices. The investment team uses computer programs to implement this strategy. Depending upon the underlying benchmark index and level of portfolio assets, we may attempt to fully replicate an index by holding all benchmark constituent stocks in approximate proportion to their weights in the benchmark index. Alternatively, we may employ sampling techniques to determine portfolio holdings. These techniques attempt to mirror general characteristics of the index, but may not hold each of the constituent stocks. Both replication and sampling approaches rely on proprietary and non-proprietary models to recommend portfolio holdings and associated trades. Passive management does not entail security analysis and we do not consider the investment potential of stocks held in these portfolios. Changes in the composition of the benchmark index may trigger corresponding trades in these portfolios. To manage transaction costs, our trades may not precisely coincide with changes in the underlying index.

- **Asset Allocation**

Our asset allocation portfolios invest in a variety of asset categories. These strategies may attempt to match or outperform a performance benchmark. Such benchmarks may represent composite indices consisting of a combination of component indices (for example, 60% S&P 500 stocks and 40% Barclay's Aggregate Bond Index). Underlying investments may be actively and/or passively managed and in some instances be managed by QMA, our affiliates, or by unaffiliated third parties. They may also include positions in derivatives, ETFs, or pooled and similar investment vehicles. Clients may specify permissible investments and asset categories, or they may delegate this responsibility to QMA. Portfolio benchmarks may be specified by our institutional clients, or developed in consultation with QMA.

We utilize both judgment and output from quantitative models to determine holdings in asset allocation portfolios. Depending upon investment objectives, we may actively change allocations among underlying asset categories in an attempt to outperform benchmarks, or to hedge existing positions. Periodically, we may rebalance asset allocation portfolios to target asset class weights.

- **Structured Products**

Our structured strategies typically utilize a combination of derivatives and non-derivative securities in an attempt to provide investment characteristics that meet specific risk and return objectives. We call these "structured" products. For example, our "market participation" structured strategy is intended to provide participation in rising stock markets, while attempting to reduce losses in declining markets. To accomplish this, the

investment team allocates a portion of the account to fixed-income instruments and a portion to futures or options on a broad-based stock market index.

Other Features of Our Methodology and Strategies

- **Ongoing Investment Research and Model Enhancements**

We periodically make enhancements to our proprietary models, or develop new strategies, as a result of our ongoing research. New strategies, or material enhancements to existing ones, must have a solid theoretical underpinning and undergo testing before they are implemented. Research is conducted within QMA investment units. Research may be original, or be extensions of published or unpublished academic findings. Data and tools used in conducting research may be developed internally, or may come from third parties. Our research efforts generally focus on quantitative stock evaluation techniques, portfolio construction and strategy implementation. We also study the behavior of securities and broad asset classes under various markets in an effort to make informed investment decisions across all of our strategies.

- **Use of Derivatives**

We may invest in futures or certain other client-approved derivatives. We typically use broad stock index futures to equitize uninvested cash in lieu of direct investments in individual securities in our actively managed equity and passive index strategies. In these portfolios, futures are not intended to be a source of value added and are generally not a large component of the portfolios; however, we may also use futures to gain exposure to certain foreign markets at lower transaction costs than would be incurred by direct investments in such markets.

In some asset allocation portfolios, we may use futures and swaps to gain exposure to an underlying basket of securities, a commodity, asset class, or market segment. In our structured products strategy, we use futures and options as an integral part of the overall strategy.

Primary Risks Associated with Our Methodology and Strategies

Investing in securities involves risk of loss that clients should be prepared to bear. Investment strategies may not achieve their performance objectives and may result in losses. We have summarized below certain important risks for our clients and prospective clients to consider.

Risks Related to Quantitative Investing

In addition to the common risks relating to investments (discussed below), quantitative investing presents unique risks which may result, despite our best efforts, in our models not performing as they are expected.

- **Model Design Risk**

The design of the underlying models may be flawed or incomplete. For example, quantitative strategies utilize models of security price behavior. Our quantitative strategies do not utilize detailed fundamental analyses of the securities they consider for purchase. The investment models we use are based on historical and theoretical underpinnings that we believe are sound. There can be no guarantee, however, that these underpinnings will continue to correlate with security price behavior in the manner assumed by our models. Additionally, the quantitative techniques that underlie our portfolio construction processes may fail to adequately manage risk.

- **Model Implementation Risks**

While we strive to mitigate the likelihood of material implementation errors, it is impossible to completely eliminate the risk of error in the implementation of the computer models that guide our quantitative investment processes. Additionally, it may be difficult to implement model recommendations in volatile and rapidly changing market conditions. Risks associated with model implementation include the following:

- The model may not operate as designed due to coding errors, input errors or other similar errors.
- Although we have back-up facilities, it is possible that computing or communication technology may be disrupted, making it difficult or impossible for us to run our models.
- While we use computer-based models in connection with our investment strategies, the implementation of these strategies may involve non-quantitative inputs from our portfolio managers. Judgment decisions made by the investment team may detract from the investment performance that might otherwise be generated by our models.
- Turnover-related trading costs will reduce the performance and performance may be poor when trading costs, or turnover, are high.
- We utilize a large amount of internal and externally supplied data in our investment models. Although we routinely check this data for errors, it is possible that our checks will not identify unanticipated data inaccuracies. Additionally, certain data items may become unavailable at any time, for reasons outside of our control, potentially reducing the efficacy of our models.

Risks Related to Investment in Equity Securities and Derivatives

- **Equity Market Risk**

Our equity strategies involve investing in U.S. or foreign stocks. Equity markets increase or decrease in value depending on fundamental, economic, political and other factors. Stock markets can be volatile and may sometimes move up or down rapidly and unpredictably. Regardless of how an individual company performs, its stock price can decrease if financial markets fall.

- **Foreign Securities Risk**

Investing in securities of non-U.S. issuers generally involves more risk than investing in those of U.S. issuers. Foreign political, economic and legal systems, especially in developing and emerging countries, may be less stable and more volatile than those in the U.S. Foreign legal systems generally have fewer regulatory requirements than does the U.S. legal system. The changing value of foreign currencies could also affect the value of securities. Foreign countries may impose restrictions on the ability of their issuers to make payment of principal and interest or dividends to investors located outside the country, due to the blockage of foreign currency exchanges or other problems. Investments in foreign securities may be subject to non-U.S. withholding and other taxes. Emerging market investments are typically subject to greater volatility and price declines than investments in developed markets.

- **Derivatives Risk**

Derivatives involve risk and can result in the loss of principal. We use derivatives only when permitted by a client's investment guidelines. Derivatives are a financial arrangement between two parties in which the value is based on, or "derived" from, the performance of an agreed-upon security, group of securities or benchmark. When approved by client guidelines, we may enter into derivative transactions, including, but not limited to, commodity, equity and currency swaps; equity and currency options; futures and options on futures; options on swaps; commodity-linked notes and forward foreign currency exchange contracts.

Derivatives generally fall into two subcategories: exchange-traded and over-the-counter (OTC). Exchange-traded derivatives, such as futures contracts, are traded on an exchange regulated by the Commodity Futures Trading Commission, are guaranteed by a clearing corporation, and have standardized terms. OTC derivatives, such as swap agreements, are privately negotiated transactions, and the terms are tailored to the specific needs of the parties.

The primary risks associated with derivatives are:

- Market risk - the risk that the market value of the investment will decline;
- Credit risk - the risk that the counterparty to the transaction will default on its obligations;
- Liquidity risk - the risk that the instrument will not be readily marketable; and
- Valuation risk - the risk that because the instrument is thinly traded, it may have only one pricing source.

Risks Related to Our Strategies

- **Security Selection Risk**

The value of an individual stock and, similarly, the value of an investment in that security, may rise or fall. Our investment processes and algorithms may favor specific securities, industries or sectors that underperform investments in other securities, industries, sectors, or the market generally.

- **Asset Allocation Risk**

We may overweight or allocate assets to an asset class that ultimately underperforms. Similarly, we may underweight or allocate fewer assets to an asset class that subsequently outperforms. In addition, the underlying funds to which we allocate assets may not perform as anticipated.

- **Dispersion Risk**

Performance dispersion among client portfolios may result from differences in cash flows and time of rebalances.

- **Turnover Risk**

Our investment strategies may include long-term purchases, short-term purchases, short sales or margin transactions. Frequent investments may result in higher portfolio turnover and higher transaction costs in an account.

- **Short Selling Risk**

Our investment strategies may include short selling (borrowing securities). There is a risk in short selling if we are unable to cover a short position on a timely basis and the price of the stock goes up.

Risks Related to Regulation

Laws and regulations affecting our business change from time to time, and we are currently operating in an environment of significant regulatory reform. We cannot predict the effects, if any, of future legal and regulatory changes on our business or the services we provide.

Risks Related to Conflicts of Interest

Various conflicts of interest are discussed throughout this document. Please review this information carefully and contact us if you have any questions.

Like other investment advisers, we are subject to various conflicts of interest in the ordinary course of our business. We strive to identify potential risks, including conflicts of interest, which are inherent in our business, and conduct formalized annual conflict of interest reviews. When actual or potential conflicts of interest are identified, we seek to address such conflicts through one or more of the following methods:

- Elimination of the conflict;
- Disclosure of the conflict; or
- Management of the conflict through the adoption of appropriate policies and procedures.

We follow Prudential Financial's policies on business ethics, personal securities trading, and information barriers. We have adopted a code of ethics (see Item 11), allocation policies and conflicts of interest policies, among others, and have adopted supervisory procedures to monitor compliance with our policies. We cannot guarantee, however, that our policies and procedures will detect and prevent, or assure disclosure of, each and every situation in which a conflict may arise.

Conflicts of Interest Associated with our Strategies

- **Conflict Associated with our Intellectual Property Protections.**
We may determine to share certain information about our models with a client or prospective client to the extent we consider necessary to address their questions regarding our investment processes. Nevertheless, we reserve the right to maintain confidentiality with respect to any and all aspects of our algorithms and processes, in our discretion, to protect our proprietary rights in our investment strategies and processes.
- **See Item 10** regarding conflicts of interest associated with our asset allocation strategies.
- **See Item 11** for a description of conflicts of interest relating to our compensation of investment professionals.

Item 9 – Disciplinary Information

Under this Item 9, we are required to disclose all material facts regarding any legal or disciplinary events that would be material to an evaluation of us or the integrity of our management. We have no facts or events to report in response to this Item.

Item 10 – Other Financial Industry Activities and Affiliations

Our Staff's Broker-Dealer Activities

Certain of our management persons and other employees are registered representatives of Prudential Investment Management Services LLC (PIMS), an affiliated SEC-registered broker-dealer.

Our Commodity Trading Activities

We are registered as a commodity trading advisor with the Commodity Futures Trading Commission, and certain of our management persons are our associated persons when we act in that capacity.

Our Relationships with Affiliates and Related Conflicts of Interest

As an indirect wholly-owned subsidiary of Prudential Financial, we are part of a diversified, global financial services organization. We are affiliated with many types of financial service providers, including broker-dealers, insurance companies and other investment advisers. Some of our employees are officers of some of these affiliates.

- **Relationships with Affiliated Broker-Dealers**

PIMS provides marketing and administrative support in connection with the offer and sale of securities of certain commingled vehicles that we advise or subadvise from time to time. As noted above, some of our management persons and other employees are registered representatives of PIMS.

- **Relationships with Affiliated Investment Vehicles**

- **Insurance Company Separate Accounts**

We are the subadviser of certain separate accounts of The Prudential Insurance Company of America (PICA) and Prudential Retirement Insurance and Annuity Company (PRIAC). We also provide asset allocation services to some clients and in the course of doing so, allocate assets to a number of these separate accounts. (See description of our asset allocation services under Item 8) In addition, we manage certain separate accounts in which Prudential Financial's retirement plan invests, and some of these separate accounts are also investment options under Prudential's 401(k) plan.

- **Mutual Funds**

We serve as subadviser to mutual funds managed or co-managed by our affiliate Prudential Investments LLC (Prudential Investments). These include certain funds in the Prudential Investments family of funds, the Prudential Series Fund, and Advanced

Series Trust. We also perform asset allocation services for certain of these affiliated funds under subadvisory agreements.

- **Collective and Commingled Trust Funds**

Our affiliate Prudential Trust Company (Pru Trust), a trust company organized under the Pennsylvania Banking Code, is the trustee of the Prudential Trust Company Collective Trust and the Prudential Trust Company Master Commingled Investment Fund for Tax Exempt Trusts, as well as certain other Pru Trust trust assets. We provide investment advice, allocate to, and provide certain ancillary services to Pru Trust with respect to some of these accounts, and certain of our employees are officers and directors of Pru Trust.

- **Affiliated Foreign Funds**

We act as investment adviser to certain funds domiciled in Italy that are sponsored and organized by UBI Pramerica SGR S.p.A., a joint venture owned in part by our affiliate Prudential International Investments Corporation. We also act as investment subadviser to certain funds of UBI SICAV, which is domiciled in Luxembourg, through our affiliate Prudential International Investment Advisers, LLC. Finally, we act as investment subadviser to certain funds domiciled in Japan that are sponsored and organized by our affiliate Prudential Investment Management Japan Co., Ltd.

- **Relationships with Affiliated Investment Advisers.**

- **General**

In addition to Prudential Investments, which is described above, other affiliated investment advisers include Jennison Associates LLC, PIM, PICA, Prudential Investment Management Japan Co., Ltd., Pru Trust, Global Portfolio Strategies, Inc., Pramerica Investment Management Limited and Prudential International Investment Advisers, LLC. We may, from time to time, provide investment advisory and ancillary services to these affiliates. We also have service agreements with some of these affiliates under which we may perform services for them or they may perform services for us.

As noted above, we provide advisory and certain ancillary services to Prudential Investments. Prudential Investments also provides certain services to us in connection with our asset allocation strategies for mutual funds and other asset allocation products, including the selection of investment managers (both affiliated and unaffiliated) to manage the assets that we allocate to various asset classes.

- **Relationships with Affiliated Insurance Companies.**

We provide advisory services with respect to the general account of PICA. We also provide advisory services with respect to the separate accounts of PICA and PRIAC, as well as asset allocation services that utilize some of those separate accounts, as described above. In addition, we provide asset allocation services with respect to a portion of the assets of the Prudential Merged Retirement Plan, a pension plan sponsored by PICA. This plan is available to employees of PICA and employees of PICA's domestic affiliates that have adopted this plan.

Recommendation of Investment Advisers

From time to time, we may allocate assets of our clients to funds managed by our affiliates in connection with our asset allocation products (as described in this section) or we may refer a client to one of our affiliates in connection with non-asset allocation products.

If the recommendation is not related to an asset allocation product, the sales representative may be entitled to receive compensation pursuant to a cross-selling policy applicable to the U.S. investment management units of Prudential Financial.

Conflicts Related to Our Affiliations

- **Conflicts Arising Out of Legal Restrictions**

We may be restricted by law, regulation or contract as to how much, if any, of a particular security we may purchase or sell on behalf of a client, and as to the timing of such purchase or sale. These restrictions may apply as a result of our relationship with Prudential Financial and its other affiliates. For example, our holdings of a security on behalf of our clients may, under some SEC rules, be aggregated with the holdings of that security by other Prudential Financial affiliates. These holdings could, on an aggregate basis, exceed certain reporting thresholds unless we monitor and restrict purchases. In addition, we could receive material, non-public information with respect to a particular issuer from an affiliate and, as a result, be unable to execute purchase or sale transactions in securities of that issuer for our clients. We are generally able to avoid receiving material, non-public information from our affiliates by maintaining information barriers to prevent the transfer of information between affiliates. (See discussion of our information barriers under Item 11.)

- **Conflicts Related to Securities Lending by Our Affiliate**

PIM may provide securities lending services to some of our affiliated advisory and subadvisory clients. PIM may also cause the collateral generated from its securities lending transactions to be invested in funds managed by PIM. PIM does not receive compensation for its advisory services to the mutual fund, but is entitled to reimbursement of its costs and expenses. We could have an incentive, with respect to those affiliated accounts for which PIM provides securities lending, to invest in securities

that would yield higher securities lending rates to PIM and additional assets for the affiliated funds. However, due to the quantitative nature of our process and the fact that the output is model driven, this risk is greatly minimized.

- **Conflicts Related to Co-investment by Affiliates**

Our affiliates may provide initial funding or otherwise invest in vehicles managed by us. When an affiliate provides "seed capital" or other capital for a fund, it may do so with the intention of redeeming all or part of its interest at a future point in time or when it deems that sufficient additional capital has been invested in that fund.

- The timing of a redemption by an affiliate could benefit the affiliate. For example, the fund may be more liquid at the time of the affiliate's redemption than it is at times when other investors may wish to withdraw all or part of their interests.
- In addition, a consequence of any withdrawal of a significant amount, including by our affiliate, is that investors remaining in the fund will bear a proportionately higher share of fund expenses following the redemption.
- We could also face a conflict if the interests of an affiliated investor in a fund we manage diverge from those of the fund or other investors.

To help mitigate these conflicts we have procedures in place that include independent monitoring by our compliance unit of the allocation and aggregation of trades across all portfolios to ensure that a seeded portfolio is not being advantaged over a non-seeded portfolio. We also have procedures to ensure that all portfolios are rebalanced on a typical cycle and that one portfolio is not being treated differently from another (i.e. rebalanced less or more frequently). Additionally, performance of all accounts within a strategy is reviewed to confirm that differences in performance, if any, resulted from account-specific factors (such as cash flows) and not from differential treatment.

- **Conflicts Related to Our Asset Allocation Services**

- In performing services for our institutional asset allocation clients, we often assist clients in evaluating investment guidelines and strategies in light of the clients' investment objectives and tolerances. We then allocate assets among investment strategies in accordance with each client's guidelines. Our allocations are generally to investment vehicles that we or our affiliated investment advisers manage. In limited circumstances (for instance, when neither we nor an affiliate manages a strategy in an asset class included in our client's guidelines), we allocate to an unaffiliated third party manager. We may also allocate client assets to investment vehicles that invest

in affiliated funds. Although we generally receive a single fee for our asset allocation services to these accounts, we have an incentive to recommend and allocate to an investment strategy managed by us or an affiliate over a strategy managed by a third party, in order to increase the assets under management and fees of Prudential's investment management business. (See description of our asset allocation fees under Item 5.)

- To mitigate the conflict of interest of favoring affiliated accounts, accounts are managed within guidelines determined by each client and the account performance is reviewed with each client on a periodic basis. Guidelines typically include a pre-determined list of ranges or limits for each asset class. The performance reviews with clients will include a discussion related to the advisory decisions made during the period and the contribution of each asset class as compared to defined benchmarks. Our compliance unit also monitors asset allocation accounts to determine if investments were made outside of established guidelines.
- As described above in this Item, we also perform asset allocation services as subadviser for affiliated mutual funds managed or co-managed by Prudential Investments. We may, under these arrangements, allocate assets to an asset class within which funds or accounts that we directly manage will be selected. In these circumstances, we receive both an asset allocation fee and a management fee. As a result, we have an incentive to allocate assets to an asset class that we manage in order to increase our fees. As mentioned above, to help mitigate this conflict, the compliance group monitors the asset allocation to determine that the investments were made within the established guidelines by asset class.
- In certain arrangements we subadvise mutual funds for Prudential Investments through a program where they have selected us as a manager, resulting in our collection of subadvisory fees from them. Prudential Investments also selects managers for some of our asset allocation products and, in certain cases, is compensated by us for these services under service agreements. Prudential Investments and we may have a mutual incentive to continue these types of arrangements that benefit both of us. These and other types of conflicts of interest are reviewed to verify that appropriate oversight is performed.

- **Conflicts Arising Out of Our Industry Activities**

We and our affiliates, from time to time, have service agreements with various vendors that are also investment consultants. Under these agreements, we or our affiliates compensate the vendors for certain services, including software, market data and technology services. Our clients may also retain these vendors as investment consultants. The existence of service agreements between these consultants and QMA may provide an incentive for the investment consultants to favor us when they advise their clients. We do not, however, condition our purchase of services from consultants upon their recommending us to their clients. We will provide clients with information about services that we or our affiliates obtain from these consultants upon request.

Item 11 – Code of Ethics, Participation or Interest in Client Transactions and Personal Trading

Code of Ethics

We maintain a code of ethics as required by applicable SEC rules. Our code of ethics requires employees to conduct business in an honest and forthright manner in accordance with the highest of ethical standards. In addition, the code of ethics requires employees to put client interests ahead of our own and disclose actual and potential meaningful conflicts of interest. The code of ethics incorporates our information barrier and personal securities trading policies that are described in greater detail below. Our employees are required to report any violation of the code of ethics promptly to our chief compliance officer.

We will provide a copy of our code of ethics to clients or prospective clients upon request.

Information Barrier Policy

PIM's information barrier policy, which applies to us, is designed to prevent the communication of material, non-public information across the various Prudential U.S. asset management investment sectors. Under the policy, an employee of one investment sector, including QMA, may not communicate material, non-public information to an employee of another investment sector without approval from each sector's compliance unit. The information barrier policy also restricts physical access to an investment sector's offices by employees of a different investment sector.

We maintain a restricted list of issuers about which we have material, non-public information. Our trading systems have electronic feeds from the database so that our trading activities are screened on a pre-trade basis against our restricted list. Investment personnel must receive an override from our compliance unit prior to transacting for client accounts in the securities of any issuers that are restricted in the trading system.

Personal Securities Trading Policy

We maintain a personal securities trading policy that governs the trading activities of our employees as well as their household members and dependents. Subject to certain limited exceptions, employees are required by the policy to:

- Report personal securities transactions to our corporate compliance unit;
- Pre-clear personal securities transactions (for employees considered to be “access persons” under SEC rules);
- Maintain brokerage accounts only with certain approved brokers that report transaction information to our corporate compliance unit; and
- Annually report securities holdings to our corporate compliance unit.

Our access persons and investment personnel are subject to additional restrictions under the policy, including the following:

- Investment personnel are generally prohibited from purchasing securities in initial public offerings;
- Access persons may not trade any security on the same day that we trade such security (or an equivalent security) for client accounts (other than in client accounts that replicate a broad-based index);
- Investment personnel are prohibited from trading any security within seven days before or after we trade such security (or an equivalent security) for client accounts (other than in client accounts that replicate a broad-based index);
- Investment personnel must disgorge any profits from the purchase and sale (in whatever order) of the same security within 60 days; and
- Access persons may not write naked call options or buy naked put options on a security held in a client account.

We monitor personal trading activity versus firm trading and restricted list content, and any matches are investigated by our compliance unit. An ethics committee meets regularly to consider possible violations and take disciplinary action where appropriate.

All employees receive annual training regarding our personal securities trading and information barrier policies. In addition, employees must annually confirm that they have read and understand our code of ethics, including the personal securities trading and information barrier policies.

Compensation of Our Investment Professionals

QMA's investment professionals are compensated through a combination of base salary, a performance-based annual cash incentive bonus and an annual long-term incentive grant. QMA regularly benchmarks its compensation program against leading asset management firms to monitor competitiveness.

The salary component is based on market data relative to similar positions within the industry as well as the past performance, years of experience and scope of responsibility of the individual.

An investment professional's incentive compensation, including both the annual cash bonus and long-term incentive grant, is primarily determined based on such person's contribution to our goal of providing investment performance to clients consistent with portfolio objectives, guidelines and risk parameters, as well as such person's qualitative contributions to the organization.

- **Conflicts Related to Long-Term Compensation**

A portion of the long-term incentive grant of some of our investment professionals will increase or decrease based on the annual performance of several of our advised accounts (currently certain affiliated funds) over a defined time period. Consequently, some of our portfolio managers from time to time have financial interests in the accounts they advise. To address potential conflicts related to these financial interests, we have procedures, including supervisory review procedures, designed to ensure that each of our accounts is managed in a manner that is consistent with our fiduciary obligations, as well as with the account's investment objectives, investment strategies and restrictions. Specifically, our Chief Investment Officer will perform a comparison of trading costs between the advised accounts whose performance is considered in connection with the long-term incentive grant and other accounts, to ensure that such costs are consistent with each other or otherwise in line with expectations. The results of the analysis are discussed at a trade management meeting. Additionally, our compliance group will review the performance of these accounts to ensure that it is consistent with the performance of other accounts in the same strategy that are not considered in connection with the grant.

Conflicts Arising Out of Securities Holdings and Other Financial Interests

We, Prudential Financial, PICA's general account and accounts of other affiliates of ours (collectively, affiliated accounts) may, at times, have financial interests in, or relationships with, companies whose securities we may hold, purchase or sell in our client accounts. This may occur, for example, because affiliated accounts hold public and private debt and equity securities of a large number of issuers and may invest in some of the same companies as our client accounts. At any time, these interests and relationships could be inconsistent or in potential or actual conflict with positions held or actions taken by us on behalf of our client accounts. For instance, we may invest client assets in the equity of companies whose debt is held by an affiliate. We may also invest in the securities of one or more clients for the accounts of other clients. While these conflicts cannot be eliminated, we have implemented policies and procedures, including adherence to PIM's information barrier policy, described above, that are designed to ensure that investments of clients are managed in their best interests.

Conflicts Related to Our Trading

- **Personal Trading by Our Employees**

Personal trading by our employees creates a conflict when they are trading the same securities or types of securities as we trade on behalf of our clients. This conflict is mitigated by our personal trading policy and procedures, described above.

- **Side-by-side Management of Accounts**

See Item 6 for a description of conflicts of interest related to our side-by-side management of accounts.

Conflicts Related to the Offer and Sale of Securities

Certain of our employees may offer and sell securities of, and units in, commingled funds that we manage. Employees may offer and sell securities in connection with their roles as registered representatives of PIMS, officers of Pru Trust or agents of PICA. (See discussion of these affiliations in Item 10.) There is an incentive for our employees to offer these securities to investors regardless of whether the investment is appropriate for such investor since increased assets in these vehicles will result in increased advisory fees to us. In addition, such sales could result in increased compensation to the employee. (See “Other Compensation” in Item 5.)

Item 12 – Brokerage Practices

Factors Used in Selecting or Recommending Broker-Dealers

Approved Counterparty List

Transactions for client accounts must be made through brokers and futures commission merchants on our approved counterparty list. Counterparties are approved by our Chief Investment Officer. Criteria for approval include:

- Financial and operational stability (including, but not limited to, profitability, liquidity, financial metrics, economic factors, size, market presence, and reputation);
- Execution, clearance, and settlement capabilities; and
- Commission rates (if applicable) and other transaction costs.

In selecting a broker for a particular transaction, we also consider factors such as the following:

- The nature of the portfolio transaction;
- The size of the transaction;
- The desired timing of the trade;
- The activity existing and expected in the market for the particular transaction;
- Broker confidentiality – i.e. not revealing details about our trades or trading patterns with other brokers or market participants;
- The amount of capital, if any, that would be contributed by firms executing the transaction; and
- Administrative cooperation.

Our compliance group maintains the approved counterparty list. We may set dollar exposure limits on a net basis for a counterparty. Class types and corresponding dollar limits are directly related to the risk of the transaction, transaction collateral, and our opinion regarding the creditworthiness of the counterparty. We continually analyze the financial and operation stability of approved counterparties, and consider new proposed counterparties from time to time. We may add or remove counterparties from our approved list based on this ongoing review. Our trade management oversight committee, which meets quarterly, reviews and monitors counterparty usage data, patterns (if any) relating to counterparty use, and other information relevant to our counterparty selection process.

Execution of Trades

We seek to execute transactions in client accounts at a price and commission that provide the most favorable total cost or proceeds reasonably attainable in the circumstances. In light of the factors described above that we consider in selecting or recommending counterparties, our

clients may pay commission costs in excess of those which another firm might have charged for executing the same transaction.

We use agency (including algorithmic) and principal techniques to trade equity securities. Our determination of whether to trade securities on an agency or principal basis takes into account various factors including market volatility, liquidity and the judgment of the trading team in its efforts to seek best execution across our client accounts. When we trade securities on an agency basis, we pay only a brokerage commission but assume the risk of market price fluctuations in the securities prior to the time the trade is executed. When we trade on a principal basis, the broker will commit to a price on a basket of securities and will assume the risk of the market movement; however, to compensate the broker for assuming this risk, we will pay a risk premium in addition to the broker's standard commission rate. In all cases, we conduct periodic reviews of the brokerage allocation among firms and the transaction costs that clients are charged.

Soft Dollars and Research Services

Currently, we do not enter into any third party or proprietary soft dollar arrangements where a broker-dealer provides research services in exchange for an expectation of receiving a certain dollar amount of commissions.

We receive a broad range of research from broker-dealers, including information on the economy, industries, groups of securities and individual companies, statistical information, market data, information regarding political developments, pricing and appraisal services, credit analysis, risk measurement analysis, performance analysis and other information regarding matters that may affect the economy and/or security prices. We may receive research in the form of written reports, periodicals, investment seminars, software, and electronic access to, and telephone contacts and personal meetings with, economists and industry participants. It also may consist of computer databases.

We use research in connection with our investment activities. Research and other items described above that we undertake in connection with the execution of transactions for one client account may be used in managing other accounts, including the accounts of affiliates.

Certain broker-dealers may also provide us with computer hardware and/or software as well as dedicated phone lines to be used to communicate trades.

We do not believe that the provision to us by broker-dealers of the research or other items and services described above results in higher commission rates. We have no agreements with these broker-dealers to direct trades to them based upon their provision of research or other services to us.

Brokerage for Client Referrals

In selecting or recommending broker-dealers, we do not consider whether we or any of our related persons receive referrals from such broker-dealers or any other third parties.

Directed Brokerage

We do not recommend, request or require that clients direct us to execute transactions through a specified broker-dealer.

We do permit clients to direct the use of a particular broker-dealer or futures commission merchant for their account. Any such direction must be in writing or, in the case of futures trading, evidenced in our clients' contracts with futures commission merchants. We may also accommodate arrangements certain clients have with brokers under which the clients recapture a portion of the commissions paid to such brokers. If a client directs brokerage:

- We may or may not be able to negotiate commission rates on its behalf and, as a result, the client may pay higher commissions, depending on its arrangements with the broker-dealer or futures commission merchant and upon other factors such as the volume of shares, the market for the security, and market-making capabilities of that particular broker-dealer or futures commission merchant;
- The client may lose the possible advantage which non-directing clients derive from the aggregation of orders for multiple clients as a single "batch" transaction, where we would, in some instances, be in a better position to negotiate brokerage commissions if the brokerage were not directed; and
- In an arrangement a client may have with a broker to recapture a portion of the commissions paid to such broker, the client may not receive best execution and, if execution costs do increase, the commissions the client recaptures may be less than the additional execution costs.

ERISA accounts may be subject to additional requirements and restrictions with respect to directed brokerage.

Clients should evaluate the relative costs, advantages and disadvantages to them of directed brokerage when considering whether or not to direct us to use one or more specific brokers.

Trade Aggregation and Allocation

- **Our Allocation Policy**

Our policy is that all clients must receive fair and equitable treatment in the allocation of securities transactions. Our general practice is that all orders will be allocated at the time of the transaction, or as soon as possible thereafter, on a basis equal to each account's appetite for the issue, including affiliated accounts. Order allocation is not based upon account performance, fee structure, or any proprietary interest that we or our affiliates may have in an account.

Deviations from our allocation policy must be approved in advance by a supervisor, and our compliance unit or law department must subsequently approve. Supervisors or their delegates who review trading activity are responsible for reasonably ascertaining that allocations are in compliance with the policy.

Orders may be executed separately or aggregated across a number of accounts when, in our reasonable judgment, aggregation may result in overall economic benefit to those accounts in terms of pricing or transaction costs. We manage both index and quantitative equity model portfolios. Index and quantitatively managed portfolios often trade multiple securities, or "basket trades," that may or may not be aggregated.

Our portfolios are optimized individually, rather than moving all portfolios toward a target, or "model" portfolio. We do this to reduce transactions costs that would otherwise occur when a number of portfolios simultaneously attempt to hold the same stocks.

Certain of our asset allocation strategies and processes do not involve direct trading in securities and would not be subject to the foregoing policy and procedures.

- **Allocation of Futures**

We seek to enter a single futures order for multiple client accounts that are traded side-by-side. This is commonly referred to as a "block order." Block orders may result in "split fills" (an execution of a block order at more than one price) or "partial fills" (an execution of a block order at less than specified quantities). We allocate block orders and any resulting split and/or partial fills in a non-preferential, predetermined and objective manner.

Our allocation methodologies for futures are in writing. We periodically review such procedures. Allocations are either pre-filed with the futures commission merchant clearing or executing the trades or transmitted contemporaneously with the block order. Contemporaneous transmission may be provided verbally or, consistent with prescribed National Futures Association methodologies, electronically.

- **Extended Settlement**

On occasion, we may purchase or sell non-U.S. securities on an extended settlement basis. Extended settlement is a series of purchases or sales of non-U.S. securities over a period of days, which is settled once, after the last purchase or sale of the securities is made. The transaction is then confirmed by the executing broker-dealer as taking place on the date of the last purchase or sale at the weighted average price of all purchases or sales. This technique is intended to reduce settlement costs and facilitate the execution of securities transactions.

Our Trade Error Policy

We maintain a trading and operational errors correction policy that is designed to ensure that errors covered under the policy are identified and corrected promptly and in a manner that is fair and reasonable. Under our policy, any associate who becomes aware of a potential error must bring the circumstances to the attention of a senior compliance or risk officer promptly. The officer contacted, together with one or more representatives of the investment unit, will determine and document the appropriate corrective action. In the event of a loss in a client account resulting from an error for which QMA was responsible, we will ensure that the client account is made whole in a timely manner.

Under certain circumstances, our policy provides that trades may, where appropriate, be cancelled or modified prior to settlement. If we cancel or modify a trade, we must be able to document that the trading counterparty will not suffer any loss. For daily valued accounts, we must also be able to document that such cancellation or modification will not change any net asset value of the account that is struck between the commission of the error and the date of cancellation. In addition, our policy provides that a trading error in one client's account involving a violation of law or of the account's investment guidelines may be corrected through a reallocation or other transfer of securities to another account, subject to certain conditions. These conditions are that the reallocation or other transfer must represent a legitimate investment decision on behalf of each account involved, and that the reallocation or other transfer is effected without loss to the transferee account.

Item 13 – Review of Accounts

Periodic Review of Client Accounts by the Investment Teams

- **Asset Management Accounts in General**

Our investment strategies are team-managed. This approach seeks to bring to the review process the benefit of multiple perspectives and facilitates the comparison of accounts managed in the same strategy to ensure that accounts are being treated fairly and equitably.

Team members from each strategy meet daily to discuss such topics as the output from the investment models, the results of trading, and the performance of client accounts, and to discuss new or ongoing issues and exchange ideas. Our Chief Investment Officer and investment unit supervisors also have responsibility for reviewing client accounts on a periodic basis and providing oversight of their investment teams.

- **Commingled Vehicles**

Some of our assets under management are held in U.S. registered mutual funds, collective investment trusts and other pooled investment funds that we subadvise. In these subadvised accounts, we and the investment portfolios we manage are subject to the oversight of the investment manager for the account, in addition to oversight by the boards of directors, plan trustees or investment committees of each account, as applicable.

- **Asset Allocation Accounts**

With respect to asset allocation services that we provide to certain clients, one portfolio manager may be assigned to an account. The portfolio manager makes active allocation and reallocation decisions for the account and also monitors allocations to assure that they are consistent with the guidelines established by each client. A senior investment professional on the asset allocation team reviews these client accounts on a regular basis to compare the performance of the accounts to their benchmarks.

Additional Ongoing Review of Accounts

Control functions such as our compliance team also monitor and assess data and processes relating to our management and trading. They report results of these analyses independently to our senior management. Some examples of these independent reviews include:

- Daily pre-trade compliance review of proposed transactions to monitor consistency with guideline restrictions;
- Daily post-trade compliance review of any exceptions to client guidelines;

- Daily post-trade review of derivatives exposure to ensure that portfolios are not over-invested;
- Monthly review of account performance to verify that performance by accounts within a particular strategy is consistent;
- Periodic review of trading to examine allocation, trade errors, and timing; and
- Periodic review by oversight committees regarding our investment management, trading and related activities.

Our oversight committees mentioned above include our

- Trade management oversight committee;
- Pricing committee;
- Proxy committee; and
- Regulatory oversight committee.

Reports to Clients

We provide written reports regularly to all of our clients regarding their accounts. In most cases, we furnish these reports quarterly, but may provide some reports monthly or annually. Our reports generally include:

- A listing of activity in the account during the applicable period;
- A list of securities positions with the aggregate cost and market value; and
- A calculation of the account's return.

In addition, our reports typically include performance returns versus benchmark (monthly, 3 months, year-to-date, and since inception), holdings as of month-end, sector summary, top ten holdings, performance attribution, and portfolio characteristics versus benchmark. We are able to provide most of this information by the tenth business day after month/quarter end.

Additionally, some of our clients receive commentaries in which our investment professionals discuss the general performance of the strategy during the preceding quarter. They describe economic and market conditions that may have influenced performance, as well as other factors, such as particular industry, sector, security or other weightings.

We understand that our clients may have varying requirements to complete their due diligence and ongoing monitoring programs, and we work with our clients to provide the necessary information.

Item 14 – Client Referrals and Other Compensation

Other than research and brokerage-related services described in Item 12 under the caption “Soft Dollars and Research Services,” we do not receive economic benefits from anyone who is not a client in connection with the advisory services we provide to our clients.

We may, from time to time, have arrangements where we compensate, either directly or indirectly, affiliated and/or unaffiliated solicitors for client referrals. The manner and amount of compensation would typically be negotiated on a case by-case basis. We do not currently have any solicitation arrangements with third-party solicitors. We will pay cross-selling commissions to marketing representatives of affiliates with respect to certain of our strategies and products pursuant to a cross-selling policy applicable to the U.S. investment management units of Prudential Financial, as noted in Item 10.

Item 15 – Custody

We do not take physical custody of the assets of our clients. Client assets are held in custodial accounts with banks, broker-dealers or other qualified custodians typically retained by our clients under arrangements negotiated by them. Although we do not have possession of client assets, when our clients permit us to deduct our management fees directly from their custodial accounts, the SEC nevertheless deems us to have custody over the assets of those clients. There are certain other circumstances under which the SEC may deem us to have custody of client assets as well.

Our clients will receive account statements from their custodians no less frequently than quarterly, and should carefully review those statements. Where our fees are deducted from the client's custodial account, the statements will show those deductions, among other information. As described in Item 13 above under "Review of Accounts: Reports to Clients," we also generally provide reports to our clients. Some of the types of information we provide in those reports are comparable to information in the account statements clients receive from their custodians. We urge our clients to compare the account statements they receive from their qualified custodians with reports that they receive from us.

Item 16 – Investment Discretion

We typically have the discretionary authority to purchase and sell assets for client accounts. This authority is granted pursuant to a written investment management or similar agreement between the client and QMA.

Our discretionary authority to manage client accounts is in all cases subject to the specific objectives, guidelines and limitations set forth in the investment management agreement.

Investment guidelines generally set forth the universe of eligible investments and issuers. As noted in Item 4 above, guidelines may also contain restrictions or limitations such as the following:

- A list of prohibited issuers or types of issuers;
- Percentage limitations regarding the investment in certain issuers, groups of issuers or asset classes;
- Percentage limitations regarding deviation from the holdings of the account's benchmark; and
- Percentage limitations on outstanding voting shares of a company held in the account.

Certain regulated clients, such as U.S. mutual funds and ERISA accounts, are subject to additional investment, diversification and other limitations imposed by applicable law.

Item 17 – Voting Client Securities

In General

We accept the authority to vote securities held in our clients' accounts when our clients wish to provide us with this authority. Our investment management agreements with our clients will generally specify whether or not we have the authority to vote proxies on their behalf.

Our Proxy Voting Policy and Procedures

Our policy is to vote proxies in the best long-term economic interests of our clients. In the case of pooled accounts, our policy is to vote proxies in the best long-term economic interest of the pooled account.

Our proxy voting policy contains detailed voting guidelines on a wide variety of issues commonly voted upon by shareholders. These guidelines reflect our judgment of how to further the best long-term economic interest of our clients (i.e., the mutual interest of clients in seeing the appreciation in value of a common investment over time) through the shareholder voting process.

From time to time, ballot issues arise that are not addressed by our policy, or circumstances may suggest a vote not in accordance with our established guidelines. In these cases, our voting decisions are made on a case-by-case basis taking into consideration the potential economic impact of the proposal.

Not all ballots are received by QMA in advance of voting deadlines, but when ballots are received in a timely fashion, we strive to meet our voting obligations within industry standards. We cannot, however, guarantee that every proxy will be voted prior to its deadline.

With respect to international holdings, we take into account additional restrictions in some countries that might impair our ability to trade those securities or have other potentially adverse economic consequences. We generally vote foreign securities on a best efforts basis if we determine that voting is in the best economic interest of our clients.

Our proxy voting committee includes representatives of our investment, operations, compliance, risk and legal teams. This committee is responsible for interpreting our proxy voting policy as well as monitoring conflicts of interest, and periodically assesses the policy's effectiveness. The committee also seeks to address any issues that may come up in the proxy voting process.

We currently use the services of a third party proxy voting facilitator and, upon receipt of proxies, will direct the voting facilitator to vote in a manner consistent with our established

proxy voting guidelines described above (assuming timely receipt of proxy materials from issuers and custodians).

We provide disclosure of our proxy voting policy, guidelines and procedures to our clients who authorize us to vote proxies, generally at the time that we are negotiating our investment management agreement. Any client may obtain a copy of these items, as well as the proxy voting records for that client's securities, by contacting the client service representative responsible for the client's account.

Note with Respect to the Voting of Certain Securities

Some of our clients may participate in securities lending programs in their accounts. We do not control or participate in any way in these programs and do not know when or which securities in our clients' accounts have been loaned. We cannot vote securities that are out of our clients' portfolios on loan or are otherwise excluded from voting privileges.

Client Direction of Voting

Although most of our clients for whom we vote proxies authorize us to vote in accordance with our proxy voting policy, a client may request that we vote its proxies in accordance with a different policy. We try to accommodate such requests. In addition, a client may direct us to vote its securities in a particular way on a particular proposal and we will seek to do so, assuming timely receipt of the instruction. However, if the ballot pertains to the client's own meeting, the ballot will be voted in accordance with our third party proxy vendor's policy. (See "Conflicts of Interest in the Voting Process" immediately below.)

Conflicts of Interest in the Voting Process

Occasionally, a conflict of interest may arise in connection with proxy voting. For example, the issuer of the securities being voted may also be a client of ours. When we identify an actual or potential conflict of interest between our firm and our clients, we vote in accordance with the policy of our proxy voting facilitator rather than our own policy. In that manner, we seek to assure the independence and objectivity of the vote.

Accounts for Which We Do Not Vote Securities

Some of our clients elect to retain voting authority for themselves. Those clients receive proxies and other solicitation materials from their custodians, and if we receive these materials for the account of such a client, we will forward them to the client's custodian. If a client has a question about a particular solicitation, the client may contact its client service representative and we will try to address the client's question. We will not, however, disclose how we intend to vote on an issue for other clients' accounts.

Class Actions and Corporate Actions

In addition to voting rights with respect to securities held in our clients' portfolios, there may be other rights associated with those securities, including the right or opportunity to participate in class actions and corporate actions.

We have agreed with some of our clients to file proofs of claim for class action lawsuits relating to securities held, or formerly held, in their portfolios while managed by us. Other clients may have their custodians handle proofs of claim or may handle such matters themselves.

Where we have agreed to handle proof of claim filings for a client, we will generally seek and use our best efforts to file such notices in all class action lawsuits in which the client is eligible to participate. In so doing, we will not inquire into the particular circumstances of any client. As a result, we will not seek to determine on an individual basis whether facts and circumstances relevant to that client would suggest that non-participation in the class action is appropriate or more advantageous to that client. For example, a client on whose behalf a proof of claim is filed may, as a result of having joined the class, waive or relinquish other claims that it may have against the target of the class action. The client may also have an interest or position with respect to the nature of the class action claim that is adverse to that of the class of plaintiffs. We would generally not be aware of those circumstances. Had the client elected to handle class action lawsuits for itself, it might have determined not to file the proof of claim in such a class action. We do not provide any legal advice or services in connection with class actions.

With respect to corporate actions (such as an issuer's merger, tender offer, dividend distribution, etc.), we participate on behalf of clients who authorize us to do so, taking such action as we deem to be in the best interest of the clients' accounts.

Item 18 – Financial Information

We have no financial commitment that impairs our ability to meet contractual and fiduciary commitments to our clients.