



# Income Research + Management

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This brochure provides information about the qualifications and business practices of Income Research + Management (referred to in this brochure as “IR+M” or “we”). If you have any questions about the contents of this brochure, please contact us at (617) 330-9333 or e-mail us at [compliance-firm@incomeresearch.com](mailto:compliance-firm@incomeresearch.com).

The information in this brochure has not been approved or verified by the U.S. Securities and Exchange Commission (the “SEC”) or by any state securities authority.

IR+M is registered with the SEC as an investment adviser. Registration of an investment adviser does not imply any level of skill or training. The oral and written communications contained within this brochure are to provide you with information to assist you in determining whether to hire or retain IR+M.

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

## **Item 2 – Material Changes**

There have been no material changes to this brochure since the filing of our last Form ADV Part 2A on March 31, 2011.

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#### **Item 4 – Advisory Business**

Founded in 1987, we specialize in managing U.S. fixed income portfolios for institutional and private clients, as well as managing several U.S. fixed income private investment funds for qualified investors. We are privately owned largely by our employees and are independent, having no subsidiaries, affiliates, or divisions. All business is done at our sole location in Boston, Massachusetts. John A. Sommers, Jr. is the only person who owns 25% or more of our firm.

We focus our investment advisory business on the investment grade portion of the U.S. fixed income universe, offering clients advice and services on broad and focused fixed income strategies, which upon request by a client, may include the use of derivatives. *Please refer to Item 8 below for a more detailed description of Methods of Analysis, Investment Strategies and Risk of Loss associated with our investment strategies.*

We continually strive to meet our clients' individual investment needs. To this end, we work closely with our clients to identify and understand their investment requirements in order to construct the most appropriate investment solutions. Even though we largely provide discretionary investment management services, we work with our clients to formulate suitable investment guidelines and restrictions that align their investment objectives and our investment process. Such restrictions may include, among others, the type or amount of securities to be bought or sold, maximum concentration in a sector or industry, minimum quality standards for rated securities, socially responsible considerations, or maximum maturities.

We do not participate in any wrap fee programs.

As of January 31, 2012, we manage on a discretionary basis \$31,323,510,668, and on a non-discretionary basis \$82,879,225.

#### **Item 5 – Fees and Compensation**

We charge clients and investors an investment management fee for the advisory services we perform (a "fee"). The fee we charge depends upon a number of factors including client type (*i.e.*, institutional client, private client, private investment fund member), portfolio type (*i.e.*, separate account portfolios, private investment fund interest), type of securities held, portfolio size, client service needs, and other factors. All fee schedules are negotiable.

For separate account clients, fees are established in a written investment management agreement with us. For investors in a private investment fund we manage, fees are established in the investor's subscription document.

We may agree to assess a performance-based fee for certain clients. Such fees may be based on the value added relative to portfolio performance measured against a specific benchmark and capped at an explicit fee level. *Please refer to Item 6 below for further information regarding performance-based fees.*

### Separate Account Investment Management Fee Calculation and Rates

We calculate fees for separate account clients based on the percentage of assets under management in a particular client's portfolio(s). In order to determine asset values under management for calculating fees, we typically utilize a third-party pricing service. In the absence of a third-party price, we seek to utilize dealer prices for individual securities or dealer prices for comparable securities. Our Portfolio Managers evaluate the prices received from these methods against the general market levels and trading activity from dealers that make markets in these and similar securities. If our Portfolio Managers disagree with the valuation provided by any third-party pricing service, we retain the right to override any price. Our Chief Compliance Officer must authorize any pricing change at each month end.

Our *institutional separate account* fees are normally based on the following annual rates:

#### Convertible Securities Portfolios

0.40% on the first \$20 million  
0.30% on the next \$30 million  
0.25% on the next \$50 million  
0.20% on amounts over \$100 million

#### Short Duration Portfolios

0.30% on the first \$25 million  
0.25% on the next \$75 million  
0.20% on amounts over \$100 million

#### Other Institutional Portfolios

##### *Portfolios over \$25 million:*

0.35% on the first \$25 million  
0.30% on the next \$25 million  
0.25% on the next \$25 million  
0.20% on amounts over \$75 million

#### Treasury-Focused Portfolios

0.10% on the first \$50 million  
0.05% on the balance

#### Government-Focused Portfolios

0.15% on the first \$50 million  
0.10% on amounts over \$50 million

##### *Portfolios under \$25 million:*

0.45% on the first \$10 million  
0.40% on the next \$15 million

Our *private client account* fees are normally based on the following annual rates:

#### Private Client Portfolios

0.25% on the first \$10 million  
0.20% on the next \$40 million  
0.15% on amounts over \$50 million

### Private Investment Fund Investment Management Fee Calculation and Rates

We calculate private investment fund fees based on the percentage of assets in a member's capital account. The fees are paid separately by each private investment fund member. The private investment fund itself does not pay an advisory fee.

Our *private investment fund* fees are normally based on the following annual rates:

**All Private Funds *Excluding* the Short Duration Private Fund**

- 0.39% on the first \$10 million
- 0.35% on the next \$10 million
- 0.30% on the next \$10 million
- 0.25% on the next \$20 million
- 0.225% on the next \$50 million
- 0.20% on amounts over \$100 million

**Short Duration Private Fund**

- 0.25% on all assets

**Payment of Investment Management Fees**

We generally charge fees on a quarterly basis in arrears. Fees are prorated for each capital contribution and capital withdrawal made during the applicable calendar quarter; furthermore, portfolios initiated or terminated during a calendar quarter are charged a pro-rated fee. Upon termination of an advisory relationship, any earned, unpaid fees are due and payable to us. We do not allow our clients to pay fees in advance.

Clients may elect to be billed directly via a written invoice, or they may authorize us in writing to directly debit fees from their qualified custodial account. If a client authorizes us to directly debit fees from its qualified custodial account, it is the client's responsibility to verify the accuracy of the advisory fee because the qualified custodian will not determine if the advisory fee charged by us is properly calculated. We provide invoices to our clients and their qualified custodian for review.

**Other Charges and Fees**

Fees charged to separate account clients are exclusive of brokerage commissions, transaction fees, and other related costs and expenses. Clients may incur certain charges imposed by custodians, brokers, and other third parties, which may include custodial fees, deferred sales charges, odd-lot differentials, transfer taxes, wire transfer and electronic fund fees, and other fees and taxes on brokerage accounts and securities transactions. Such charges, fees, and commissions are exclusive of and in addition to our fees, and we do not receive any portion of these commissions, fees, and costs. *Please refer to Item 12 below for a description of the factors we consider in selecting or recommending broker-dealers for client transactions and determining the reasonableness of their compensation.*

Neither the private investment funds we manage nor any member in such private investment funds pay any fee for professional services such as custody, audit, legal, or financial and tax preparation. All such fees are borne by us, the private investment fund's manager.

### **Potential Conflicts of Interest**

We serve as the manager, the investment adviser, and in some cases as the managing member, to several private investment funds. When appropriate and permitted by ERISA and other applicable law, we may recommend to qualified investors with whom we have a pre-existing relationship, including current clients with a separately managed account, to purchase interests in a private investment fund. This gives rise to a potential conflict of interest because the fee structure that applies to private investment fund members may be different than the fee structure that applies to separate accounts. As a result, we and our personnel may receive direct or indirect economic benefits from investments in private investment funds that differ from the economic benefits we and our personnel might receive from managing separately managed accounts; however, no such investment or recommendation will be made with the purpose of benefiting our, or our personnel's, economic interests.

IR+M also retains the right to override the price of a security in a client's portfolio if no price is provided for the security or the price of the security is deemed to be unacceptable by IR+M. In doing so, a conflict of interest may exist when making recommendations regarding the value of such securities since our investment management fees are generally based on the value of assets under management. We believe that our pricing valuation policies and procedures mitigate this conflict effectively and enable us to value client assets fairly and in a manner that is consistent with our client's best interests.

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

In some cases, we enter into performance-based fee arrangements with certain clients. These types of fees are subject to individualized negotiation with the client. We structure any performance or incentive fee arrangement subject to Section 205 of the Investment Advisers Act of 1940, as amended (the "Advisers Act") in accordance with the available exemptions thereunder, including the exemption set forth in Rule 205-3 under the Advisers Act. In measuring clients' assets for the calculation of performance-based fees, we include realized and unrealized capital gains and losses as well as accrued but unpaid interest.

We may also manage portfolios for affiliated persons of IR+M and portfolios in which IR+M has an interest. For example, IR+M may provide initial funding or otherwise invest in private investment funds managed by IR+M with the intention of seeding the private investment fund.

### **Potential Conflicts of Interest**

Performance-based fee arrangements may create an incentive for us to recommend investments which may be riskier or more speculative than those which would be recommended under a different investment management fee arrangement. Performance-based fee arrangements also create an incentive to favor higher fee paying portfolios over other portfolios in the allocation of investment opportunities. We have adopted procedures that are designed to treat all clients fairly and equally over time, and to prevent this conflict from influencing the allocation of investment opportunities among our clients. None of our employees are compensated in any way that is explicitly linked to the performance of any client portfolio.

We may also manage portfolios for affiliated persons of IR+M and have an interest in certain IR+M private investment funds. These arrangements can create an incentive for us to favor one or more portfolios or types of portfolios over others. We believe that our policies and procedures mitigate these potential conflicts of interest and allow us to manage all portfolios fairly and in a manner that is consistent with our client's best interests. *Please refer to Item 12 below for a description of the factors we consider in selecting or recommending broker-dealers for client transactions and determining the reasonableness of their compensation.*

### **Item 7 – Types of Clients**

We provide investment management services to corporate pension and profit-sharing plans, Taft-Hartley plans, charitable institutions, foundations, endowments, municipalities, registered investment companies, private investment funds, trust programs, high net worth individuals, and other U.S. and international institutions.

We generally require a \$25 million minimum portfolio size for a separately managed institutional fixed income portfolio. For Treasury-focused portfolios, Government-focused portfolios, and Convertible portfolios, the minimum account size is \$10 million. For private client portfolios, the minimum account size is \$5 million. For our private investment funds, the minimum initial investment is generally \$2.5 million. All minimum account sizes may be waived at our discretion.

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

Our overall investment objective is to construct portfolios in conformity with our clients' investment objectives. To that end, our investment philosophy and method of analysis is consistent across all of our fixed income investment strategies. We believe that careful security selection and higher portfolio income provide superior returns over the long term. As such, we construct our clients' portfolios using a disciplined bottom-up investment approach to select what we believe to be the most attractive securities from the fixed income universe. Our goal is to purchase what we feel are attractive, inefficiently priced securities that, when combined together in our clients' portfolios, provide attractive expected return, reasonable risk exposures, and necessary liquidity. This philosophy has remained consistent since the inception of the firm.

Our fundamental analysis provides the basis of security selection with an emphasis on favorable credit, structure, and price characteristics. In addition, our manageable asset size allows us sufficient market agility to implement our best ideas by participating, and acquiring meaningful positions, in unique opportunities.

We strive to maintain a duration neutral position (typically within +/- 10% of an index) and a relatively neutral key rate exposure versus the respective benchmark. We do not forecast interest rates or make macro bets and we do not typically buy high-yield, non-dollar, or emerging market issues. Our security selection process utilizes the following factors to identify a diverse mix of bonds used in creating portfolios:

- Credit: investment grade focus

- strong fundamentals, collateral enhancement, understandable risks
- Structure: inherent attributes that create value
  - convexity advantage, yield maintenance, covenants
- Price: credit and structure benefits at a compelling price
  - yield advantage, cheap optionality

Investment ideas are evaluated and then promoted (or rejected) by our individual sector teams (Government, Securitized, Credit, Municipal) after analysis and discussion. Interesting ideas are then vetted by our Portfolio Managers at regular review meetings or on an ad hoc basis, as necessary. Overall portfolio exposures to any particular sector, sub-sector, or specific idea are governed by sector targets, which are set by our Senior Portfolio Managers based on available opportunities, relative value, and review of risk factors on the portfolio level. Risk is measured and assessed primarily with a third-party monitoring tool which measures characteristics such as portfolio duration, convexity, spread duration, key rate exposure, sector exposure, and tracking error.

\* \* \*

**Investing in securities involves risk of loss that clients should be prepared to bear.** More specifically, investing in the bond market is subject to certain risks, including, among others, market, interest rate, credit, call or prepayment, extension, issuer, and inflation risk.

While we actively seek to manage risk, our clients could lose money in their portfolios as a result of many factors, including if one or more the following occurs:

- Changes in the prices of securities due to general and sometimes rapid and/or unpredictable movements in the market often related to changes in economic conditions. This is known as market risk.
- Interest rates go up, causing the value of debt securities to decline. This is known as interest rate risk.
- The issuer of a security defaults on its obligation to pay principal and/or interest or the price declines substantially due to a credit rating downgrade, anticipated downgrade or other event. This is known as credit risk.
- During periods of declining interest rates, the issuer of a security exercises its option to prepay principal earlier than scheduled, forcing reinvestment in lower yielding securities. This is known as call or prepayment risk.
- During periods of rising interest rates, the average life of certain types of securities may extend because of slower than expected principal payments. This may lock in a below market interest rate, increase the security's duration, and reduce the value of the security. This is known as extension risk.

- Our judgment about the attractiveness, risk adjusted total return, relative value or potential appreciation of a particular sector or security proves to be incorrect.
- To the extent we invest significantly in corporate, asset-backed, and mortgage-related securities, a portfolio's exposure to credit, prepayment, and extension risks may be greater than if the portfolio were invested in other fixed income instruments.
- To the extent we invest in TBA mortgage-related securities or enter into "dollar roll" transactions, funds earmarked for payment of these obligations may be invested in securities that are longer in maturity than the settlement date. This is a common method of increasing return on a portion of a client's investment portfolio, but it may subject to additional market or credit risk.

Furthermore, clients should be aware that there are additional risks associated with investing in the types of fixed income instruments which may be included in a client's portfolio. They include, among others, the following:

- Government Securities Risk. Not all U.S. government securities are backed by the full faith and credit of the U.S. government. It is possible that the U.S. government would not provide financial support to certain of its agencies or instrumentalities if it is not required to do so by law. If a U.S. government agency or instrumentality defaults and the U.S. government does not stand behind the obligation, returns could be negatively impacted. The U.S. government guarantees payment of principal and timely payment of interest on certain U.S. government securities.
- Municipal Securities Risk. Municipal securities are subject to the risk that legislative changes and local and business developments may adversely affect the yield or value of investments in such securities. In addition, in order to be tax-exempt, municipal securities must meet certain legal requirements. Failure to meet such requirements may cause interest received on the municipal securities to be taxable. Changes or proposed changes in federal tax laws may also cause the prices of municipal securities to fall and, thereby, adversely affect an investment.
- Mortgage-Related and Other Asset-Backed Securities Risk. Mortgage-related securities include pass-through securities, Collateralized Mortgage Obligations ("CMO"), commercial mortgage-backed securities, mortgage dollar rolls, CMO residuals, stripped mortgage-backed securities and other securities that directly or indirectly represent a participation in, or are secured by and payable from, mortgage loans on real property. The value of some mortgage- or asset-backed securities may be particularly sensitive to changes in prevailing interest rates. Early repayment of principal on some mortgage-related securities may cause a lower rate of return upon reinvestment of principal. When interest rates rise, the value of a mortgage-related security generally will decline; however, when interest rates are declining, the value of mortgage-related securities with prepayment features may not increase as much as other fixed income securities. The value of these securities may fluctuate in response to the market's perception of the creditworthiness of the issuers. Mortgage-related securities may also possess credit risk. Because the assets providing cash flows to a mortgage-related

security may be composed of mortgage loans, the holders of such mortgage-related securities are subject to default and delinquency risks. If mortgage borrowers are delinquent or default on their payments, the holders of mortgage-related securities may not realize full repayment of their investment or may experience delays in the repayment of their investment. The credit risk of mortgage-related securities depends, in part, on the likelihood of the borrower paying the promised cash flows of principal and interest on time. The credit risk of a specific mortgage-related security may be influenced by a variety of factors including: (i) the mortgage borrower's lessened ability to repay in light of changed circumstances, such as a job loss; (ii) the borrower's ability to make higher mortgage payments which may result from floating-rate interest resets; (iii) declines in the value of the property which serves as collateral for the mortgage loan; and (iv) seniority or priority of the specific mortgage-related security relative to other claims on the cash flow from the pool of mortgage loans.

- Derivatives Risks. Upon a specific request by a client, and in accordance with such client's investment guidelines and restrictions, we may invest client assets in certain derivatives. The use of derivative instruments involves risks different from, and possibly greater than, the risks associated with investing directly in securities and other more traditional investments. Derivatives are subject to a number of risks, such as potential changes in value in response to interest rate changes, other market developments or changes in the counterparty's credit quality and the risk that a derivative transaction may not have the effect we anticipated. If a counterparty becomes insolvent or otherwise fails to perform its obligations, there may be significant delays in obtaining any recovery from the counterparty in an insolvency, bankruptcy, or other reorganization proceeding and it is possible that no recovery, or only a partial recovery, would result. Derivatives also involve the risk of mispricing or improper valuation and the risk that changes in the value of a derivative may not correlate perfectly with the asset, rate, or index underlying the derivative. Derivative transactions can create investment leverage, may be highly volatile and can result in losses that exceed the amount of capital invested. Use of derivatives other than for hedging purposes may be considered speculative. Many derivative transactions are entered into "over the counter" (not on an exchange or contract market); as a result, the value of such a derivative transaction will depend on the ability and the willingness of the counterparty to perform its obligations under the transaction. A liquid secondary market may not always exist for derivative positions at any time. Although the use of derivatives is intended to enhance performance, it may instead reduce returns and increase volatility. Recent legislation calls for new regulation of the derivatives markets. The extent and impact of that regulation are not yet fully known and may not be for some time. New regulation of derivatives may make them more costly, may limit their availability, or may otherwise adversely affect their value or performance. The absence of a central exchange or market for swap transactions has led, in some instances, to difficulties in trading and valuation, especially in the event of market disruptions. Recent legislation will require most swaps to be executed through a centralized exchange or regulated facility and be cleared through a regulated clearinghouse. The swap market could be disrupted or limited as a result of this legislation, which could adversely affect performance. Moreover, the establishment of a centralized exchange or market for swap transactions

may not result in swaps being easier to trade or value and may result in a substantial increase in the cost of derivatives transactions.

- Possibility of Increased Government or Market Regulation. The recent credit crisis and resulting market disruptions have led to increased governmental, as well as self-regulatory, scrutiny of the markets in general. It is impossible to predict what, if any, changes in regulations will result from these developments, but any regulations which restrict the ability of us to employ or broker, and other counterparties to extend, credit in trading (as well as other regulatory changes which result) could have a material adverse impact on the profit potential of a client's portfolio.

#### **Item 9 – Disciplinary Information**

We are required to disclose all material facts regarding any legal or disciplinary events that would be material to your evaluation of us or the integrity of our management. We have no applicable information to disclose in this Item 9.

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

None of our employees are currently registered, or have an application pending to register, as a broker-dealer or a registered representative of a broker-dealer. Additionally, none of our employees are registered, or have an application pending to register, as a futures commission merchant, commodity pool operator, or a commodity trading adviser.

#### **Item 11 – Code of Ethics**

We have adopted a Code of Ethics and Statement Against Insider Trading (the "Code") that is designed to comply with Rule 204A-1 under the Advisers Act and 17j-1 under the Investment Company Act of 1940, as amended (the "Investment Company Act"). The Code describes our high standard of business conduct and fiduciary duty to our clients and private investment fund members. The Code provides that each employee, officer, independent contractor, temporary employee, and intern of IR+M (each an "IR+M Employee"), and to a certain extent IR+M Employees' immediate family members, as well as IR+M Shareholders, place the interests of IR+M's clients ahead of their own. As such, each IR+M Employee must conduct all personal securities transactions in a manner that is consistent with the Code to assist us in detecting and preventing any actual or potential conflicts of interest. Additionally, the Code provides that no IR+M Employee or IR+M Shareholder may misuse information about client portfolios, abuse his or her position of trust and responsibility, or take inappropriate advantage of his or her position at IR+M.

The Code also includes, among other things, 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, personal securities trading procedures (including pre-clearance and reporting obligations), and restrictions on making political contributions. All IR+M Employees, must acknowledge the terms of the Code annually,

and as it is amended, as well as complete certain reports on a quarterly and annual basis. Annually, IR+M Shareholders are required to acknowledge the terms of the Code.

We maintain a policy concerning trading by IR+M Employees which we believe is reasonably designed to minimize potential conflicts of interest between us and our clients. To minimize such potential conflicts of interest, we prohibit IR+M Employees from (1) trading, either personally or on behalf of others, in securities while in possession of material non-public information regarding such securities and (2) communicating material non-public information to others.

Other provisions of the Code include the following:

- Reporting. To comply with certain securities laws and the rules of the SEC, all IR+M Employees must complete quarterly transaction reports of personal security transactions in Covered Securities for their own accounts or any account in which they have a direct or indirect beneficial interest. A “Covered Security” includes any and all securities *except* direct obligations of the United States government, money market instruments, money market funds, exchange-traded funds, and shares of investment companies registered under the Investment Company Act (other than investment companies, if any, for which we act as a sub-adviser or adviser). Such quarterly transaction reports must be submitted electronically through our third-party compliance software system within thirty calendar days of the end of the quarter.

In addition, and on an annual basis, all IR+M Employees must submit through our third-party compliance software system a holdings report, listing all securities for their own accounts and for any account in which they have a direct or indirect beneficial interest. Furthermore, all IR+M Employees must annually certify that he or she has complied with the Code. Lastly, all IR+M Employees must direct their brokers to supply to the Chief Compliance Officer duplicate copies of confirmations of all Covered Securities transactions.

- Front-Running. No IR+M Employee may engage in front-running an order or recommendation for our client, regardless of who is handling or generated the order or recommendation. Front-running means purchasing or selling the same or underlying securities, or derivatives based on these securities, ahead of and based on knowledge of a security transaction on behalf of our clients.
- Personal Trading While Client Trades are Pending. No IR+M Employee may purchase or sell any Covered Security, including initial public offerings, limited offerings, and private offerings, that have been purchased or sold in any of our clients’ portfolios within the previous five (5) business days. This provision does not apply to simultaneous execution of personal and client trades in an aggregated order.
- Short Sales. No IR+M Employee may sell short a Covered Security held by any client portfolio managed by us, nor participate in naked short sales.
- Excessive Short Term Trading. Although short-term trading is not absolutely prohibited, IR+M Employees are hired and compensated with the expectation that they will invest for

their employee and family accounts on a long-term basis. Short-term trading is excessive when it (1) presents an unacceptable risk of conflicts with the interests of our clients, (2) may over time impair the IR+M Employee's judgment on behalf of our clients, or (3) may unduly occupy an IR+M Employee's thoughts and time during working hours. Accordingly, no IR+M Employee may purchase and sell, or sell and purchase the same (or equivalent) Covered Security within a sixty (60) calendar day period.

- Late Trading and/or Market Timing. No IR+M Employee may engage in late trading with respect to any fund. In addition, IR+M Employees are discouraged from engaging in excessive short term trading practices, such as market timing, with respect to transactions in any fund.

Late trading occurs when an employee places an order after a fund's trading deadline (*i.e.*, after the time of day as of which the fund calculates its net asset value (NAV) per share) and the order receives that current day's NAV price. The purpose of late trading is to attempt to take advantage of potential late-breaking market news and price movements. Late trading is a violation of the federal securities laws because it allows an investor who has learned, after the close of the market, information that might impact a fund's share price on the following day to place an order for fund shares at the current day's NAV.

Any purchase or redemption orders placed by an employee after a fund's trading deadline must be entered for execution on the following business day. No exceptions may be granted. Notwithstanding the foregoing, there may be legitimate reasons to modify, amend or cancel trades due to operational error by the transfer agent or the broker-dealer in completed trades received in a timely manner provided that the fund does not incur a loss as a result of the "as of" transaction.

- Outside Employment. No IR+M Employee may serve as a director or trustee or other fiduciary for unaffiliated entities without the pre-approval by the Chief Compliance Officer.
- Acceptance of Gifts. No IR+M Employee may accept gifts of any material value from any person that does business with or on behalf of IR+M without the pre-approval by the Chief Compliance Officer.
- Political Contributions. IR+M, as a firm, will neither make contributions to any public officials or candidates for office nor pay any third-party to solicit government clients on its behalf.
- IR+M Shareholders and Employees (as well as their immediate family members) may pre-clear and upon approval, contribute up to a maximum of \$250 per candidate per election if the IR+M Shareholder or Employee is entitled to vote for that candidate provided the candidate cannot influence investment manager hiring decisions for government funds.
- Transactions in Securities Held in IR+M Client Portfolios. All IR+M Employees must request and obtain preclearance from the Chief Compliance Officer before effecting any personal transactions in Covered Securities.

The foregoing discussion is a summary and it is qualified by its entirety by reference to the Code, a copy of which is available to any prospective or existing client upon request. For a copy, please contact Richard M. Kizik, Principal and Chief Compliance Officer, Income Research + Management, 100 Federal Street, 33<sup>rd</sup> Floor, Boston, MA 02110-1835.

### **Potential Conflicts of Interest**

The Code seeks to assure that the personal securities transactions, activities and interests of IR+M Employees will not interfere with (i) making decisions in the best interests of our clients, and (ii) implementing such decisions while, at the same time, allowing IR+M Employees to invest for their own accounts. Nonetheless, because the Code in some circumstances would permit IR+M Employees to invest in the same securities as clients, there is a possibility that IR+M Employees might benefit from market activity by a client in a security held by an IR+M Employee. Because of this, IR+M Employee trading is continuously monitored under the Code to seek to mitigate conflicts of interest between us and our clients.

We act as the investment adviser for certain private investment funds and portfolios in which we and certain principals of IR+M may have direct and/or indirect beneficial ownership. These portfolios may invest in securities that have been purchased or sold for a client's portfolio(s). Subject to satisfying the Code and applicable laws, IR+M Employees may trade for their own accounts in securities which are recommended to and/or purchased for our clients.

Additionally, and where appropriate, IR+M may aggregate or batch orders for certain portfolios in which we or certain principals of IR+M have direct and/or indirect beneficial ownership with orders for clients, provided in each case client trades are treated equally with affiliated portfolio trades and that all participating portfolios partake on a basis considered by us to be fair and equitable and in accordance with our trade allocation policies. *Please see Item 12 below for additional information about our trade aggregation practices.*

*Please see Item 5 above for information about potential conflicts of interest that may exist when we recommend that a client, including a separate account client, invest in a private investment fund that is advised or managed by us.*

*Please see Item 12 below for information about cross trades between client accounts and related potential conflicts of interest.*

### **Item 12 – Brokerage Practices**

Clients typically give us full discretion to determine and to direct execution of portfolio transactions with certain broker-dealers and/or counterparties.

In selecting broker-dealers and/or counterparties to execute portfolio transactions, our primary objective is to obtain the overall best combination of price and execution under the particular circumstances then prevailing. Best price, giving effect to brokerage commission, if any, and other transaction costs, such as markups or markdowns, if any, are the primary criteria used in

selecting brokers for fixed income trades. Brokers who exhibit the ability to effect trades that most closely conform to our price expectations are favored. The selection of a broker-dealer also takes into account the quality of service, including, but not limited to factors such as execution capability, willingness to commit capital, financial stability, and clearance and settlement capability. We maintain a list of approved brokers and counterparties and generally transact business with those brokers and counterparties with whom we have done business in the past and who we believe provide overall best execution.

Fixed income securities are usually purchased from the issuer or a broker-dealer acting as a principal on a net basis (*i.e.*, the spread between the bid and offer prices), so brokerage commissions are uncommon. Fixed income securities may also be purchased in public offerings from underwriters at prices which include underwriting commissions and fees. Fixed income securities may be purchased at a spread to a reference U.S. Treasury security.

#### Directed Brokerage

We typically do not agree to arrangements in which our clients may limit our discretionary authority as to selecting the broker-dealer and/or counterparty used for the client's particular transaction.

If in the rare circumstance we are requested to accept directed brokerage instructions from a client, we must receive and approve written instructions from the requesting client acknowledging that: (1) such an arrangement may detract from our ability to obtain overall best execution, (2) we may not be able to aggregate the requesting client's trades with the trades of other clients, and (3) we will generally place the requesting client's trades after other client trades have been executed. We also request that the client provide us with a list of eligible brokers and the approximate target percentage or dollar amount of transactions to be directed. If the client portfolio is subject to the Employment Retirement Income and Security Act of 1974, as amended ("ERISA"), we request documentation from that client that the product or service obtained through the directed brokerage arrangement will be used exclusively for the benefit of the plan's participants.

#### Soft Dollar Relationships

We have no soft dollar arrangements involving third party research or other products or services. We pay for our analytical expenses with hard dollars. All transactions are done with a broker-dealer and/or counterparty where we believe we will receive overall best execution. As part of our relationships, broker-dealers may provide us with research. The research received does not dictate the broker-dealer we will use for any given trade; that decision is made solely based on overall best execution considerations that are described above. Although we do not believe the receipt of this research is a soft dollar arrangement, to the extent it is deemed a soft dollar arrangement, we feel it falls within the safe harbor of Section 28(e) of the Securities Exchange Act of 1934, as amended (the "Exchange Act"). Notwithstanding the fact that we will not choose a broker-dealer based on any research received and that we do not believe that the receipt of such research is a soft dollar arrangement, the SEC requires that we advise you that in selecting broker-dealers that provide research to us, we face potential conflicts of interest. For example, to the extent that the research we receive is of value, we may avoid expenses that we

might otherwise incur. As a result, we may have an incentive to select or recommend broker-dealers based on our interest in receiving these benefits, rather than our clients' interest in getting the most favorable execution. In addition, if we purchase information from a broker-dealer with whom we effect trades on behalf of client portfolios, the broker-dealer may believe it has a financial incentive to charge us a favorable fee for such information in return for receiving our brokerage business. To address these conflicts of interest, we have put in place policies and procedures which we believe adequately address these potential conflicts of interest.

We use research received from broker-dealers, which is primarily in the form of broadly distributed credit and sector research reports, solely to assist us in our investment decision-making and not in the management of the firm. The research we may receive is not mixed-use research, and no benefit from a brokerage relationship is used from a client to pay for a product or service purchased under any other client's-specific brokerage arrangement. Additionally, research that we may receive for a given transaction is usually applicable to all client portfolios. Generally, secondary trades are transacted on a principal basis and research received is used in the portfolios where transactions occur as well as other client portfolios.

#### Client Referrals

We do not use client brokerage commissions to compensate or otherwise reward brokers for client referrals.

#### Cross Trades

We feel that arranging for one client portfolio to buy or sell a portfolio security directly from another client portfolio may reduce or eliminate transaction costs. As such, and when permitted by applicable law and IR+M's compliance policies and procedures, and not prohibited by a client's investment guidelines, we may determine, based on guidance and best practices established through SEC no-action letters, that it is appropriate and in the best interest of each affected client if one client portfolio purchases a security from another client portfolio that is selling the same security ("internal cross trades"). We permit internal cross trades for non-ERISA separate account portfolios only if certain conditions are met. Internal cross trades are not permitted in ERISA portfolios.

Transactions between IR+M and a client are "principal transactions." We have no intention of engaging in principal transactions with our clients and will never do so with respect to our clients that are investment companies or that are governed by ERISA. In the event we wish to effect principal transactions with clients other than investment companies or ERISA-governed clients, we will at a minimum receive written consent from our client prior to each transaction after receiving approval from our Chief Compliance Officer.

In all circumstances, cross trades may be permissible for non-ERISA portfolios if (1) neither participant is IR+M, (2) each trade is consistent with the investment policies of each participating portfolio as reflected in each clients' investment guidelines, (3) the selling portfolio receives only cash, (4) no brokerage commission, fee (except for customary transfer fees or nominal brokerage commissions for effecting the transfer) or other remuneration is paid by the participating portfolios

in connection with the transaction, (5) a direct transaction between client portfolios should be effected at the independent current market price of the security, which should be (a) the last reported sale price for the security, if available or (b) if the last sale price is not available, the average of the highest current independent bid and lowest current independent offer for the security, or (c) the midpoint between the bid and ask price provided by an independent third-party pricing service.

Cross trades present a potential conflict of interest because we represent the interests of both the buying portfolio and the selling portfolio in a single transaction. In addition, we might have an incentive to treat one counterparty to the cross trade more favorably than the other, particularly in situations where the one party pays us a higher management or performance-based fee than the other counterparty. Additionally, a cross trade involves the potential risk that the price of the security purchased or sold in the cross trade might not be as favorable as it would have been if the trade was executed in the open market. To address these conflicts of interest, our policies and procedures, as described above, require that any cross trades be effected at the applicable independent current market price of the security, which is determined by reference to independent third party sources. Trade data is reviewed periodically to identify cross trades.

#### Trade Aggregation

We may decide to purchase or sell the same securities for several client portfolios at approximately the same time. Whenever possible, orders to purchase or sell the same security for multiple client portfolios are aggregated if we believe batching will result in more favorable execution. We will not aggregate investment transactions for portfolios unless the transaction is consistent with the terms of each client's applicable investment management agreement and each client's investment objectives, restrictions, and policies. If we do not aggregate trades when we have the opportunity to do so, clients may pay higher brokerage costs.

We may batch a client's trades with trades of portfolios affiliated with us, including private investment funds managed by us, and other affiliated portfolios. A client trade can be aggregated with an employee trade or a trade by an affiliated portfolio only if we meet each of the following conditions:

- The client trades are treated equally with affiliated portfolio trades;
- Each affiliated and non-affiliated participant in the trade receives average execution and average commissions; and
- Securities purchased or sold are allocated fairly and in accordance with our trade allocation procedures.

#### Allocation Procedures

We may not necessarily purchase or sell the same securities for client portfolios at the same time or in the same proportionate amounts for all eligible clients. We do expect, however, that client portfolios with similar investment objectives may trade many of the same securities at the same time, although it may not be feasible to allocate a transaction pro rata to all eligible clients.

Because of this, not all clients will necessarily participate in the same investment opportunities or participate on the same basis.

We allocate investment opportunities among our clients in a manner we believe is fair and equitable to each client over time. In making these allocations, we take into account the following factors:

- The client's investment objectives and strategies;
- The composition and characteristics of the portfolio relative to similar portfolios;
- The cash flows and amount of investment funds available to each client;
- The amount already committed by each client to a specific investment or sector;
- Each client's risk tolerance and the relative risk of the investment; and
- The marketability of the security being considered.

If a Portfolio Manager determines that an investment is inappropriate (after the trade has been placed but prior to final allocation) to include in a client's portfolio, we may reallocate the ineligible portfolio's share of the trade amongst the remaining participating client portfolios. Such a reallocation can only be made if our Portfolio Managers determine that the remaining participating portfolios would benefit from receiving the additional allocation. These situations may include:

- Avoiding creation of odd lot positions in any portfolio or in a position that is too small to be meaningful;
- Allocating a smaller portion to those portfolios for which the purchased security would be a peripheral investment and a larger portion to those portfolios for which the security would be a core investment;
- Satisfying demand with respect to a portfolio's relative cash position (i.e., to allocate a small portion to portfolios with less cash or liquidity and a greater portion to portfolios with more cash or highly liquid investments); or
- Reallocating a position intended for a new portfolio that is pending trading approval.

Post-execution allocations must comply with the same general guidelines set forth above for pre-execution allocations and must be consistent with the goal of treating all portfolios fairly and equitably.

### **Potential Conflicts of Interest**

We manage numerous client portfolios with similar investment objectives, and manage portfolios with different investment objectives, both of which may trade in the same securities. Despite the fact that portfolios may have similarities, portfolio decisions relating to our clients' investments and the performance resulting from such decisions may differ from client to client. Specifically, from time to time we may take an investment position or action for one client that is different from a position or an action taken for another client that has a similar investment objective. These decisions may adversely impact or benefit one or more affected portfolios, including portfolios in which we (or our employees) may have an interest. We seek to manage and mitigate these

potential conflicts of interest by following policies and procedures concerning the allocation of investment opportunities among clients, which are described above in the Item 12.

### **Item 13 – Review of Accounts**

Our clients' portfolios are reviewed regularly by at least one of our Portfolio Managers as well as by members of our Risk Team. Additionally, we track compliance with each client's investment guidelines on a pre- and post-trade basis using a third-party trade order management system. The trade order management system is rules-based and we "code" a client's specific investment guidelines into the system.

Lastly, our clients have the opportunity to review portfolio information via written client statements we send monthly, with the exception of certain clients who have requested reports at quarter-end or year-end only. Generally, the reporting package contains a list of a client's portfolio holdings, purchases and sales transactions for the given period, and the performance of the client's portfolio versus their respective benchmark for the month/quarter, year-to-date, last twelve months, and since inception.

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

We do not receive economic benefits from anyone who is not a client for providing investment advice or other services to our clients. In addition, we do not, and our related persons do not, compensate any third parties for client referrals.

### **Item 15 – Custody**

Clients should receive at least quarterly statements from the qualified custodian that holds and maintains their investment assets. Because we are not the official books and records keeper of our clients' assets, we urge clients to carefully review such custodial statements and compare them to the appraisals we provide. Our statements may vary from custodial statements based on accounting procedures, reporting dates, or valuation methodologies of certain securities. *Please refer to Item 13 above for a description of monthly appraisals.*

### **Item 16 – Investment Discretion**

We usually receive full discretionary investment management authority from our clients at the outset of an investment advisory relationship through a thoroughly negotiated investment management agreement. Among other things, the investment management agreement generally allows us to select the types and amounts of investments for a client's portfolio in compliance with the client's investment guidelines and restrictions.

In all cases, our investment discretion is exercised in a manner consistent with all investment guidelines and restrictions that may be established by our clients, as well as any restrictions imposed by a client due to any regulatory authority to which it may be subject. For clients who are registered investment companies, our discretionary authority may be limited by certain securities

and tax laws that require diversification of investments, and favor the holding of investments once made.

We require the investment management agreement and investment guidelines and restrictions to be in writing.

### **Item 17 – Voting Client Securities**

Because holders of fixed income securities are not usually requested to vote proxies, it is our policy that each of our clients be responsible for voting all proxies with respect to the securities held in their portfolio(s). All proxy voting ballots we receive are promptly forwarded to the appropriate party.

To address the exceptional event that we are responsible for exercising voting authority with respect to a client's securities, we have adopted written proxy voting policies and procedures as required by Rule 206(4)-6 under the Advisers Act. When we exercise such voting authority, it is our policy to apply the same voting decisions for all portfolios in which we exercise voting authority. It is generally our policy to vote in accordance with the issuer's management recommendation absent countervailing considerations. If we believe the issuer's management position on a particular issue is not in the best interests of our clients, we will vote contrary to the issuer's management's recommendation.

### **Potential Conflicts of Interest**

A material conflict of interest may arise in the course of our proxy voting activities. Such a conflict of interest might exist, for example, when an issuer who is soliciting proxy votes also has a client relationship with us, when one of our clients is involved in a proxy contest, or when one of our employees has a personal interest in a proxy matter. When such a conflict of interest arises, in order to ensure proxies are voted solely in the best interests of our clients, we may involve our Managing Principals in consultation with our Chief Compliance Officer to help determine how the items of a particular proxy ballot should be voted.

Our clients may obtain a copy of our complete proxy voting policies and procedures upon request. Clients may also request information on how we voted any proxies on behalf of their portfolio.

### **Class Action/Legal Proceedings Policy**

In the course of managing client assets, we may also receive notice of class action lawsuits, bankruptcy claims, or other legal proceedings. It is our policy that we will not advise or take any action on behalf of any client in any legal proceeding, including class actions or bankruptcies involving securities held in or formerly held in a client's portfolio. This practice is based on our understanding that we do not have (1) the appropriate "power of attorney," (2) the authority to bind a client to a legal agreement, or (3) a contractual obligation to participate.

In the event that we receive information relating to any class action lawsuit, bankruptcy claim, or other legal proceeding, we will use our best efforts to cooperate and assist clients in gathering all information and documents regarding a client's portfolio that may be relevant to such proceeding.

However, in the event that we receive a notice of a class action lawsuit, bankruptcy claim, or other legal proceeding with respect to securities purchased or sold by a private investment fund we manage, it is our general policy to participate in all class action suits, bankruptcy claims, or legal proceedings in which one or more managed private investment fund is eligible. However, we may determine not to participate in a class action suit, bankruptcy claim, or legal proceeding for any number of reasons, including if we determine that the anticipated out-of-pocket costs associated with any potential recovery are likely to exceed the amount of the potential recovery, or if the private investment fund intends to pursue its legal rights outside of the class. Our Chief Compliance Officer, after consultation with the applicable investment personnel, makes the decision on whether to participate in the proceeding.

### **Item 18 – Financial Information**

We are required to provide certain financial information or disclosures about our financial condition. We have no financial commitments that impair our ability to meet contractual and fiduciary commitments to our clients and have never been the subject of a bankruptcy proceeding. If a financial event occurs that requires immediate disclosure, IR+M will update this Item 18 as soon as practically possible.