

MORLEY CAPITAL MANAGEMENT, INC.

MORLEY CAPITAL MANAGEMENT, INC.
1300 SW Fifth Avenue, Suite 3300
Portland, Oregon 97201
1-800-548-4806
www.morley.com

March 30, 2012

This brochure provides information about the qualifications and business practices of Morley Capital Management, Inc. ("Morley"). If you have questions about the content of this Brochure, please contact us at 1-800-548-4806 or clientservice@morley.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.

Morley Capital Management, Inc. is a registered investment adviser (CRD #105339). Registration of an investment adviser does not imply any level of skill or training.

Additional information about Morley Capital Management, Inc. also is available on the SEC's website at www.adviserinfo.sec.gov.

Item 2 - Material Changes

This amended brochure, dated March 30, 2012, replaces the previous brochure dated March 31, 2011 and contains the following materials changes:

1. Item 1 Advisory Business - Additional information has been provided regarding the investment management services offered by Morley Capital Management.
2. Item 5 Fees and Compensation – The fee schedule has been updated.
3. Item 10 Other Financial Industry Activities and Affiliations – The list and description of various affiliated parties has been revised to reflect current practices.
4. Item 12 Brokerage Practices – The description of various functions has updated.
5. Item 14 Client Referrals and Other Compensation – Additional information regarding potential referral arrangements has been added.
6. Item 17 Voting Client Securities – The section has been revised for greater consistency with the revised Morley Proxy Voting Policy.

Item 3 - Table of Contents

	<u>Page</u>
Item 1 – Cover Page.....	1
Item 2 – Material Changes.....	2
Item 3 – Table of Contents.....	3
Item 4 – Advisory Business.....	4
Item 5 – Fees and Compensation.....	5
Item 6 – Performance Based Fees and Side-by-Side Management.....	5
Item 7 – Types of Clients.....	5
Item 8 – Methods of Analysis, Investment Strategies and Risk of Loss.....	6
Item 9 – Disciplinary Information.....	8
Item 10 – Other Financial Industry Activities and Affiliations.....	8
Item 11 – Code of Ethics, Participation or Interest in Client Transactions and Personal Trading.....	9
Item 12 – Brokerage Practices.....	10
Item 13 – Review of Accounts.....	11
Item 14 – Client Referrals and Other Compensation.....	11
Item 15 - Custody.....	12
Item 16 – Investment Discretion.....	12
Item 17 – Voting Client Securities.....	12
Item 18 – Financial Information.....	13

Item 4 – Advisory Business

Morley Capital Management, Inc. (“Morley”) was incorporated in the state of Oregon in 1983. Morley is a direct, wholly-owned subsidiary of Morley Financial Services, Inc. and is an indirect subsidiary of Principal Financial Group, Inc., a publicly held company that is traded on the New York Stock Exchange under the ticker symbol PFG.

Morley provides investment management services for stable value and short to medium term investment grade fixed income mandates.

Stable value portfolios consist of Stable Value Investment Contracts (also known as Investment Contracts or Wrap Contracts) issued by insurance companies, banks, and other financial institutions that provide book value accounting treatment. These contracts are designed to provide capital preservation and permit benefit-responsive transactions at book value. While these contracts do not insure the value of a portfolio and are not insurance against losses, they facilitate the capital preservation objective of a stable value portfolio by applying book value accounting standards permitting the amortization of gains and losses over time through the crediting rate. Typical examples of these contracts include Guaranteed Investment Contracts (GICs), Bank Investment Contracts (BICs), Synthetic Investment Contracts (SICs), and Separate Account Contracts (SACs).

The performance of these contracts is often dependent on the underlying securities which serve as the collateral for the contracts. Morley provides investment management services for the collateral of certain contracts and may oversee affiliated and unaffiliated sub-advisers who provide investment management services for the collateral. Types of fixed income securities underlying these contracts typically include but are not limited to:

- U.S. Treasury Debt
- U.S. Agency, Government-Sponsored Entity (GSE) and U.S. Government guaranteed bank debt
- Municipal bonds
- Agency residential mortgage-backed securities
- Mortgage backed securities
- Commercial mortgage-backed securities
- Corporate bonds
- Asset backed securities
- Foreign government or corporate debt obligations
- Derivatives
- Pooled investment products

Morley offers investment management services to the following types of accounts: institutional separate accounts, registered investment companies, and other commingled pooled accounts that are exempt from registration under the Investment Company Act of 1940. Investment management services include selection, analysis, review, appraisal, purchase and sale of, Stable Value Investment Contracts, fixed income securities, or sub-advisers for clients, as well as continuous review of investment opportunities and credit status, identification of relative values, and optimal allocation of clients' assets given prevailing conditions in the securities markets.

As of February 29, 2012, Morley manages over \$15 billion in total assets under management. Of this amount, discretionary assets totaled \$11.7 billion and non-discretionary assets totaled \$3.2 billion.

Item 5 – Fees and Compensation

All fees and compensation are subject to negotiation. The specific manner in which fees are charged is established in a written investment advisory contract between Morley and the client. Generally, fees are calculated as a percentage of total assets under management and are billed monthly or quarterly in arrears. Fees and minimum portfolio size can vary from the schedules below and may be negotiated based upon factors that include, but are not limited to, the investment mandate, amount and/or composition of assets involved, range and extent of services provided and whether the client currently has assets managed by Morley or its affiliates. Moreover, fees and other account requirements may vary as a result of prior policies and the date the account was initially opened. Other pricing options, typically involving multiple accounts, services or products, may also be offered to certain clients. Other investment advisers may charge higher or lower fees for comparable services.

The firm's current fee schedule expressed as an annual percentage is:

Annual Fee on Total Assets: 5-25 basis points, or negotiated based on size and asset type.
Account Minimum: \$50 million, subject to discretion of Morley.

Morley's fees are exclusive of brokerage commissions, transactions fees, and other related costs and expenses which shall be incurred by the client. Clients may incur certain charges imposed by custodians, brokers, and other third party intermediaries. Mutual funds may also charge internal management fees, which are disclosed in a fund's prospectus. Such charges, fees and commissions are exclusive of and in addition to Morley's fee, and Morley shall generally not receive any portion of these commissions, fees and expenses.

Termination of contracts: Investment management contracts provide for termination by either party on up to 120 days' written notice, or as otherwise negotiated. Investment advisory contracts with registered investment companies may be terminated by either party upon 60 days' written notice, or as otherwise negotiated.

Morley does not receive any compensation from broker-dealers associated with the purchase or sale of securities. Item 12 further describes the factors that Morley considers in selecting broker-dealers for client transactions and determining the reasonableness of their compensation.

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

Morley does not charge any performance-based fees.

Item 7 – Types of Clients

Morley provides investment management services to registered investment companies, bank sponsored collective investment trusts, corporate pension and profit sharing plans, Taft-Hartley plans, state or municipal government entities, insurance company separate accounts and/or other institutional clients.

Although subject to negotiation, the minimum dollar amount to establish an account with Morley is \$50 million.

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

Morley believes the best way to help stable value clients achieve their investment goals of capital preservation, liquidity and consistent positive returns is through the diligent application of three factors: a disciplined investment process that combines top-down macroeconomic research with fundamental bottom-up security analysis, a disciplined investment process and a commitment to risk management.

Morley's investment process consists of four foundational components integrating Morley's wrap strategy throughout the process:

1. Idea Generation

Morley establishes its investment strategy by evaluating the macroeconomic landscape and analyzing sector and credit conditions.

2. Fundamental Research

Morley combines insightful, fundamental, qualitative research with quantitative screening to identify and monitor investments for Morley managed portfolios and to select/monitor complementary sub-advisors.

3. Portfolio Construction and Tactical Allocation

Morley constructs client portfolios based on clients' objectives and the team's view on duration, liquidity, sectors and credit.

4. Risk Management and Portfolio Monitoring

Morley's risk controls are imbedded throughout the process. Morley continuously monitors Morley managed and sub-advised portfolios.

Morley's research approach begins with our credit philosophy, which is based on the view that Stable Value is a conservative investment option and fixed income by its nature has more downside risk than upside potential. Morley favors market-to-book value stability over reaching for the highest crediting rate. The fundamental analysis of issuers and securities is the core of Morley's research process. It starts with the consideration of the macro and sector level key drivers, risks, and outlooks derived from the team's macro and sector level view, coupled with a bottom-up analysis of the issuer by the research analysts. Morley's primary focus is on the sources of repayment backing the investment and their related risks, which requires a careful assessment of the integrity of the issuer's cash flows. For a corporate bond issuer, Morley assesses free cash flows, including the adequacy and stability of cash flow sources. Morley looks for diversified revenue streams believed to hold up well in down cycles.

In addition, Morley looks at potential claims on cash flows including capital expenditures, debt, and management financial policies such as dividends and share buybacks. On the structured side, Morley assesses the sufficiency and timing of cash flows deriving from the underlying loan pools and uses internal models to estimate loan losses relative to credit enhancement levels.

From that fundamental assessment, Morley identifies the key credit risks and factors expected to influence spreads over the investment horizon. Morley then assigns an independent internal credit rating and outlook and communicates findings to members of the corporate and structured product teams. An approved list restricts which securities can be purchased. Security structure is also an important risk Morley evaluates. Morley uses Yield Book and Bloomberg analytics to assess the stability of the security's cash flows, as measured by parameters such as effective duration, convexity, and option cost. Stress tests are run to determine how the security's cash flows may change in different interest rate environments.

Morley's portfolio construction process is a combination of top-down and bottom-up processes. Top-down economic research is an essential part of the process, as it generates base-line economic scenarios and forecast assumptions, and provides a consistent framework for bottom-up research at the security, industry and sector-level. The bottom-up approach is then designed to elicit an independent judgment from Morley's analysts and the research department. Morley believes this combination of top-down and bottom-up analysis gives the investment team a better strategic view of the investment landscape and a greater opportunity for tactical execution.

Sector allocation decisions are based on risk-adjusted relative values within each sector. Relative value decisions take into consideration factors such as asset quality, credit outlook, asset optionality, interest rate outlook, sector liquidity, trading costs, relative yield advantages and sector supply outlook.

The objective is to position the portfolio to perform well in any interest rate environment; however, Morley will modestly adjust the targeted duration based on current market conditions economic outlook, and fund cash flow activity.

In general, Morley targets overall portfolio durations between 2.0 and 4.0 years based on several factors. First, analysis of historical risk/return tradeoffs and the efficient-horizon return curve indicate that return per unit of risk generally increases the fastest up to around 3-4 year maturities in a positively sloped yield curve environment, after which further maturity extensions provide less incremental return. Secondly, portfolio durations in excess of four years hinder the portfolio's ability to reasonably track market interest rates, exposing the portfolio to the risk of significant underperformance in rising interest rate environments.

Morley seeks to control risk at many levels of portfolio construction. It begins with a conservative approach to duration management and credit. The focus is on investment grade securities, both at the corporate and structure level. Morley then forecasts a base case and two tail risk scenarios for the economy. It is important to take into account what the effects on the portfolio will be under not just the base case but also under tail risk scenarios. Scenario testing is utilized for changes in rates and the yield curve. In addition, scenario testing is also performed at the sector and security level. Morley has a number of tools utilized in evaluation, such as Trepp for CMBS. The research team prepares a credit surveillance report and a credit signal report. Morley has developed certain criteria that the company feels are important in signaling an increasing risk in a security. These reports generate flags that trigger further evaluation. Morley monitors its sub-advisors' views of the markets and explores any differences that might be significant. Morley also monitors its portfolio characteristics versus other fixed income managers and analyzes any significantly different positioning. This allows Morley to compare the risks taken as compared to its peer group. This data is presented at the monthly Investment Committee meeting. This committee consists of the firm's senior management and serves as further oversight to review the risk positions of the portfolios.

The investment strategy utilized by Morley involves risk including but not limited to the following risk factors:

Market Risk – risk of unexpected market movements adversely affecting investment value

Credit Risk – the risk that the issuer of a debt security will be unable to make the required payments of interest and/or repay principal when due.

Interest Rate Risk – the risk that an increase in market interest rates may decrease the value of debt securities held by a client portfolio.

Liquidity Risk – the risk that opportunities to sell securities will become limited due to market volatility or size of position.

Wrap Risk – the risk of the ability to obtain or maintain book value coverage.

Although Morley does not use frequent trading as a primary investment strategy, it may occur and can negatively impact investment performance through increase commissions, fees and taxes.

Investing in securities involves risk of loss that clients should be prepared to bear.

Item 9 – Disciplinary Information

Morley is not involved in any pending legal events or disciplinary actions that management views as having a materially adverse effect on Morley's business, operations, financial position or net income.

Item 10 – Other Financial Industry Activities and Affiliations

Morley was acquired by the Principal Financial Group in 2007. The Principal Financial Group was established in 1879 and became a public company listed on the New York Stock Exchange in 2001 under the ticker symbol PFG. The Principal Financial Group is a leading global financial company offering business, individuals and institutional clients a wide range of financial products and services.

Morley is under common control with Princor Financial Services Corporation ("Princor"), a retail investment adviser and broker-dealer registered with the SEC and a FINRA member firm that markets a variety of proprietary and non-proprietary mutual funds, unit investment trusts and limited partnerships. Princor registered representatives may facilitate the marketing and distribution of various collective investment trusts advised by Morley. A limited number of Morley's employees who are FINRA registered representatives are licensed with Princor. Morley currently does not conduct any brokerage business with Princor.

Morley is under common control with Principal Global Investors, LLC ("PGI"), an investment adviser registered with the SEC. PGI serves as a sub-adviser and provides investment management services for the underlying fixed income portfolio for one of the Stable Value Investment Management Contracts that make up the Principal Stable Value Fund, a collective investment trust for which Morley serves as the adviser. PGI also provides Morley various

resources and services, including but not limited to, human resources, sales and marketing, information technology systems, and financial and accounting services. PGI and Morley share common officers and directors.

Morley is under common control with Union Bond and Trust Company ("UBT"), a trust company organized under the laws of the state of Oregon. UBT provides Trustee services and administrative services to collective investment trusts. UBT has retained Morley to serve as investment adviser for certain collective investment trusts, subject to the control, supervision and review of UBT. UBT is a wholly-owned subsidiary of Morley Financial Services, Inc., the direct parent company of Morley. UBT and Morley share common officers and directors.

Morley is under common control with Principal Life Insurance Company ("Principal Life"), an insurance company licensed in all 50 states and the District of Columbia. Stable Value Investment Contracts issued by Principal Life may be utilized in stable value portfolios managed by Morley, and Morley may serve as the investment manager of the fixed income securities serving as collateral for such contracts.

Certain employees of Morley may also be employed simultaneously by such other affiliated entities.

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

Morley has adopted a written Code of Ethics (the "Code") pursuant to Rule 204A-1 of the Investment Advisers Act of 1940. All Morley employees, officers and directors are subject to the Code as "Access Persons." The purpose of the Code is to prevent Access Persons from participating in fraudulent, deceptive or manipulative acts, practices or courses of conduct in connection with the management of client accounts. The Code establishes certain standards of business conduct to which Access Persons are expected to adhere. In particular, the Code is designed to uphold the following principles: (1) that Morley's duty at all times is to place the interests of Morley's clients first; (2) that all personal securities transactions conducted by Access Persons shall be conducted consistently with the provisions of the Code and in such a manner as to avoid any actual or potential conflict of interest or any abuse of that individual's position of trust and responsibility; and (3) that Morley's Access Persons shall not take inappropriate advantage of their positions with Morley.

The primary focus of the Code is the personal trading activities of Morley's Access Persons. Access Persons are required to report personal securities transactions on a quarterly basis and report their personal holdings on an annual basis. Access Persons also must certify on an annual basis that they understand and have complied with the Code. Morley does not buy or sell for itself securities that it also recommends to clients, however, Access Persons may personally buy or sell securities that are recommended to clients. Therefore, Access Persons are required to pre-clear personal securities transactions which may represent a conflict with client trading activity and are prohibited from buying or selling a security seven days before or after the security has been traded by Morley on behalf of a client account. Access Persons are required to hold certain securities for a minimum of thirty days before they can be sold. The Chief Compliance Officer is responsible for enforcing the Code and imposing appropriate sanctions for violations. The Code also contains an insider trading provision designed to prevent the misuse of material, nonpublic information by Morley and its Access Persons. The Code expressly forbids any Access Person from either trading on material non-public information, or communicating material non-public information to others in violation of federal

law.

Clients or prospective clients may obtain a copy of the Code by contacting the Chief Compliance Officer at (800) 548-4806.

Item 12 – Brokerage Practices

For those client accounts where Morley has the power to determine brokers through whom orders will be executed, a number of factors are considered in arriving at such determinations. These factors include execution capabilities, back office and processing capabilities, reputation and perceived soundness of the firm and the level of rates that can be obtained. Morley does not adhere to any rigid formulas in making the selection of the applicable broker, but weighs a combination of the preceding criteria. Consistent with the foregoing analysis, Morley seeks best net price and execution when it is instructed to select brokers and negotiate brokerage commissions. Morley may pay a higher commission than otherwise obtainable from other brokers in return for services only if a good faith determination is made that the commission is reasonable in relation to the value of services provided. While Morley generally seeks competitive commission rates in those instances where it is authorized to do so, it may not necessarily pay the lowest commission or spread available. Transactions may involve specialized services on the part of the broker or dealer, and thereby entail higher commissions or spreads than would be the case with other transactions with more routine services. Provision of specific products, research or other services normally are not taken into consideration by Morley and in any event will not result in a directed transaction if the dealer is “off the market” in its bid or offer for a security.

Morley does not consider sales of shares of the mutual funds it advises as a factor in the selection of brokers or dealers to execute portfolio transactions for a Fund. Whether or not a particular broker or dealer sells shares of Funds or products for which Morley serves as adviser or sub-adviser neither qualifies nor disqualifies such broker or dealer to execute transactions for its mutual funds.

As a matter of policy, Morley does not receive any research products or services in exchange for soft dollar commissions.

Morley may group orders to obtain the efficiencies that may be available on larger transactions when it determines that investment decisions are appropriate for each participating account and consistent with the terms of the investment management agreement with each client. Moreover, Morley will not aggregate transactions unless it believes that aggregation is consistent with its duty to seek best execution for its clients. When aggregating orders, Morley seeks not to favor any client over any other client; each client participating in the aggregated order will participate at the average unit price calculated for the aggregate order, with transaction costs shared pro-rata based on each client's participation in the transaction subject to the brokerage fee rates negotiated by the brokerage firm and the advisor on behalf of client, as applicable. Securities purchased or sold in a batched transaction are allocated pro-rata, when appropriate, to the participating client accounts in proportion to the size of the order placed for each account. Morley may, however, increase or decrease the amount of securities allocated to each account if necessary to avoid holding odd-lot or small numbers of units for particular clients. Additionally, if Morley is unable to fully execute a batched transaction and it is determined that it would be impractical to allocate a small number of securities among the accounts participating in the transaction on a pro-rata basis, Morley may allocate such securities in a manner determined in good faith to be a fair allocation. It is also Morley's policy to allocate securities

investment pricing opportunities fairly and equitably among its discretionary accounts.

Clients of Morley may be following the same or similar strategies at the same or different times as those offered to Morley's other clients, or to clients of Morley's affiliated advisers. Because different portfolio construction processes are used for different types of accounts advised by such advisers, allocation of trading opportunities may not be granted to certain accounts with similar strategies where the portfolio manager in good faith determines that such opportunity may not be appropriate for such accounts. Even where opportunities may be appropriate for certain accounts, as described above, where a client directs the selection of the brokerage firm, it may not be able to participate in the aggregation of its order with similarly managed accounts, and likely will have its order placed after the placement of accounts that grant full discretionary trading authority. In addition to higher transaction costs that may apply to these directed orders, the prices received by clients directing brokerage may be impacted negatively by the earlier placement of non-directed orders.

In connection with investment advisory services, Morley may recommend the services of one or more custodians to clients. Additionally, certain collective investment trusts, for which Morley serves as adviser, may charge a single fee, payable to the Trustee, which encapsulates various services including trustee, custodial, and/or investment management. In such circumstances, Morley would be typically compensated directly by the Trustee.

Item 13 – Review of Accounts

Client accounts are under constant review by their assigned portfolio manager. All portfolios are updated daily and available for ongoing analysis. Each portfolio manager is typically assigned 5-10 accounts. Portfolio managers report to the Chief Investment Officer, or other applicable employees with similar job functions and responsibilities, who will also monitor portfolios on a regular basis and may initiate a more detailed review of any account as the situation warrants. No less frequently than quarterly, the portfolios are reviewed by the Investment Committee for consistency of positioning and performance as well as compliance with existing guidelines. The Investment Committee is typically comprised of the President, Director of Operations, Chief Compliance Officer, Chief Investment Officer, the Director of Research, and senior portfolio managers.

Clients are furnished a monthly statement of transactions, holdings, and portfolio performance. Reports typically provide information regarding portfolio assets, duration, and yield statistics.

Reports are provided to the investment adviser of various registered investment company clients upon request. These reports include information regarding the performance of the funds, net asset value, net assets, sales and redemptions as of the end of the quarter. Where Morley serves as a sub-adviser, it may also provide reports pertaining to portfolio management, performance and compliance supervision to the hiring investment adviser.

Item 14 – Client Referrals and Other Compensation

Morley is not party to any arrangement whereby it compensates unaffiliated third parties for client referrals. Morley may obtain referrals from affiliated investment advisers and compensation may or may not be provided in such circumstances.

In addition, Morley and its employees do not receive any economic benefits, including sales awards and prizes, from a non-client in connection with providing advisory services to clients.

Item 15 – Custody

Morley does not maintain custody of client funds or securities. Clients should receive at least quarterly statements from the broker dealer, bank or other qualified custodian that holds and maintains client's investment assets. Morley urges clients to carefully review such statements and compare such official custodial records to the account statements that Morley may provide to you. The statements provided may vary from custodial statements based on accounting procedures, reporting dates, or valuation methodologies of certain securities.

Item 16 – Investment Discretion

Generally, Morley has authority to determine, without obtaining specific client consent, the securities to be bought and sold, the amount of securities to be bought and sold, the broker or dealer to be used to execute trades and commissions rates to be paid. However, Morley may not have total investment and brokerage discretion for all client accounts. Various agreements may contain limitations on Morley's investment and brokerage authority. When selecting the identity and amount of securities to be bought or sold, Morley observes the investment policies, guidelines and restrictions of the particular client account. Investment policies, guidelines and restrictions must be provided to Morley in writing.

Item 17 – Voting Client Securities

In accordance with Rule 206(4)-6 of the Investment Advisers Act, Morley has adopted proxy voting policies and procedures to fulfill its fiduciary obligation of voting in the best interest of its clients. Morley shall administer all proxies. Proxies are received by Morley at its primary office location and directed to the Chief Operations Officer ("COO"). The COO will record the proxy and forward it to the Chief Investment Officer ("CIO") and Chief Compliance Officer ("CCO") for evaluation. The CIO will evaluate the proxy to determine if any potential conflicts of interest exist and if Morley should vote the proxy or abstain. The CIO shall provide a recommendation to the CCO and COO, who shall confirm that no potential conflicts of interest exist. The COO shall vote the proxy per the CIO's recommendation. Morley shall attempt to process every vote for all proxies that it receives. There may be circumstances when the costs and/or resources required to cast a vote outweigh the potential benefits to a client. These issues include, but are not limited to: restrictions for share blocking countries, the need to engage the services of a translator to cast a vote, restrictions on foreigners' ability to vote proxies, requirements to vote in person or provide local agents with power of attorney to cast the proxy vote, and restrictions on the sale of the security for a period of time in proximity to the vote.

In the event that a potential conflict of interest is determined to be material, the CIO, COO and CCO may seek alternative methods to address the conflict including, but not limited to: requesting an unaffected Morley Portfolio Manager to provide a vote recommendation; requesting evaluation by the Morley management team; obtaining a vote recommendation from a neutral third party such as a proxy voting service provider; or requesting a vote recommendation from an affiliated investment adviser. If a material conflict cannot be resolved, Morley shall notify the client and request instruction with respect to the vote. Morley shall document in writing conflicts of interest it identifies and the subsequent resolution thereof.

Clients may obtain a copy of Morley's proxy voting policies or information on how Morley voted a specific proxy by contacting the CCO at (800) 548-4806.

Item 18 – Financial Information

Registered investment advisers are required to provide certain financial information or disclosures about their financial condition. Morley has no financial commitment that impairs its ability to meet contractual and fiduciary commitments to clients, and has not been the subject of a bankruptcy proceeding.