

**Item 1 – Cover Page**

**Baring International Investment Limited**  
**155 Bishopsgate**  
**London, EC2M 3XY**  
**United Kingdom**  
**44(0)20-7628-6000**  
**www.barings.com**  
**March 30, 2012**

This brochure provides information about the qualifications and business practices of Baring International Investment Limited. If you have any questions about the contents of this brochure, please contact us at 44(0)20-7628-6000. The information in this brochure has not been approved or verified by the United States Securities and Exchange Commission (the “SEC”), the Financial Services Authority of the United Kingdom, or by any other state securities authority or regulator.

Baring International Investment Limited is registered as an investment adviser with the SEC and is authorized and regulated by the Financial Services Authority of the United Kingdom. Registration does not imply a certain level of skill or training.

Additional information about Baring International Investment Limited is also available on the SEC’s website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).

## **Item 2 – Material Changes**

This brochure is dated as of March 30, 2012. The last annual update to our brochure was March 31, 2011.

Changes to the brochure dated March 31, 2011 include a description of BIIL's policies and procedures on undertaking third party activities and gifts and hospitality, a description of the arrangement when clients elect to execute their own securities transactions based upon our investment recommendations, and further clarification of external cross trading.

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#### **Item 4 – Advisory Business**

Baring International Investment Limited (“BIIL”) is a limited liability corporation domiciled in the United Kingdom and has been registered as an investment adviser with the SEC since April 15, 1980. BIIL is wholly-owned by Baring Asset Management Limited (“BAML”) and is indirectly wholly-owned by Massachusetts Mutual Life Insurance Company. BAML, along with its subsidiaries and Baring Asset Management LLC are referred to herein as the “Barings Group.” The Barings Group provides investment management services to clients on a global basis. The Barings Group has four principal offices, which are located in London, Boston, Hong Kong, and Tokyo. The Barings Group provides investment management services in developed and emerging equity and fixed income markets on behalf of clients.

The Barings Group maintains standard investment guidelines for each of the mandates it offers to clients. However, clients may customize their portfolios based on their own investment objectives, guidelines and restrictions.

BIIL acts as a sub-adviser to various so-called “wrap fee” arrangements, whereby BIIL provides investment management services in the form of recommendations for the management, acquisition and disposition of assets. Under these arrangements, BIIL is responsible for providing to the adviser to the “wrap fee” arrangement, for implementation by the adviser, investment instructions via a model containing the securities to be purchased, held or sold and the weightings thereof in accordance with the procedures and standards agreed to by BIIL and the adviser. The participants in these “wrap fee” arrangements are considered clients of the adviser and not BIIL. Under these arrangements, the adviser pays BIIL a fee calculated quarterly and based upon the market value of the assets invested according to the model.

As of December 31, 2011, BIIL managed \$10,877,637,161.00 in client assets on a discretionary basis and \$0 on a non-discretionary basis.

## **Item 5 – Fees and Compensation**

### **A. Separate Accounts**

In consideration of the investment management services it provides to clients, BIIL charges clients fees calculated as an annual percentage rate of the net asset value of the client's portfolio. BIIL sends invoices to clients quarterly in arrears.

Certain mutual fund clients calculate their applicable fee and remit the amount directly to BIIL on a monthly basis.

Certain clients pay BIIL a performance-based fee, which is a fee based on the capital appreciation of the assets of such client.

### **B. Private Funds**

With respect to the private funds managed by BIIL, investors pay BIIL a fee calculated as an annual percentage rate of the net asset value of the investor's units in a fund. The investment management fee is calculated by BIIL and invoiced to the investors on a quarterly basis. The investors may select to have BIIL send the investor invoices or have BIIL withdraw a sufficient number of shares from the fund to satisfy the amount due and payable. Custodial fees relating to the funds are paid by each fund unless otherwise agreed to by the fund's managing member. Each fund will bear all expenses of its normal operations; including, but not limited to, brokerage, legal, audit, accounting, tax preparation, research, indemnification, tax and other operational expenses and extraordinary expenses. Investors in a private fund should refer to the applicable fund's offering documents for a more complete discussion of the fees associated with an investment in a fund.

### **C. Fee Schedules**

BIIL's basic fee schedules are set forth below:

For U.S. Core or U.S. Core Plus fixed income accounts, the fees are as follows:

0.350%	First \$30 million of assets under management
0.250%	Next \$20 million
0.150%	Thereafter

For World Equity accounts, the fees are as follows:

0.75%	First \$25 million of assets under management
0.65%	Next \$25 million
0.60%	Next \$50 million
0.50%	Thereafter

For Active/Passive EAFE accounts, the fees are as follows:

0.55%	First \$25 million of assets under management
0.40%	Next \$50 million
0.30%	Next \$175 million
0.25%	Thereafter

For Active Passive ACWI ex US accounts, the fees are as follows:

0.55%	First \$25 million of assets under management
0.40%	Next \$50 million
0.30%	Next \$175 million
0.25%	Thereafter

For the Active Passive Alpha Tilt accounts, the fees are as follows:

0.70%	First \$25 million of assets under management
0.50 %	Next \$50 million
0.40%	Next \$175 million
0.30%	Thereafter

For Focused International Plus Equity accounts, the fees are as follows:

0.95%	First \$10 million of assets under management
0.85%	Next \$40 million
0.75%	Next \$50 million
0.65%	Next \$150 million
0.60%	Next \$150 million
0.50%	Thereafter

For the Focused International Equity accounts, the fees are as follows:

0.90%	First \$10 million of assets under management
0.80%	Next \$40 million
0.70%	Next \$50 million
0.60%	Next \$150 million
0.55%	Next \$150 million
0.45%	Thereafter

For the International Plus Equity accounts, the fees are as follows:

0.90%	First \$10 million of assets under management
0.80%	Next \$40 million
0.70%	Next \$50 million
0.60%	Next \$150 million

0.55% Next \$150 million  
0.45% Thereafter

For the International Equity accounts, the fees are as follows:

0.85% First \$10 million of assets under management  
0.75% Next \$40 million  
0.65% Next \$50 million  
0.55% Next \$150 million  
0.50% Next \$150 million  
0.40% Thereafter

For global and international fixed income accounts, the fees are as follows:

0.325% First \$50 million of assets under management  
0.315% Next \$50 million  
0.26% Next \$100 million  
0.22% Thereafter

For Focused Emerging Markets Equities accounts, the fees are as follows:

0.95% First \$50 million  
0.90% Next \$50 million  
0.85% Next \$100 million  
0.70% Thereafter

For international small cap accounts, the fees are as follows:

0.90% First \$50 million  
0.85% Next \$50 million  
0.75% Next \$100 million  
0.65% Thereafter

BIIL may utilize arrangements for aggregating assets of the same or affiliated clients for the purposes of achieving amalgamated or composite fee break levels.

BIIL may enter into compensation arrangements with clients that differ from those set forth above. Fee levels may vary between clients based on various factors and are typically negotiable.

Clients will incur brokerage and other transaction costs, as well as custodial fees charged by the client's custodian. These fees and expenses are separate from the fees paid to BIIL for its investment management services. To the extent BIIL invests in investment companies on behalf of a client, the client indirectly bears the fees associated with any such investment.

Please refer to Item 12 of this brochure for a discussion of the factors BIIL considers in selecting brokers for client transactions and determining the reasonableness of their compensation.

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

As disclosed under Item 5 above, BIIL manages client accounts that pay performance-based fees. Certain portfolio managers and other investment personnel of BIIL have responsibility for both client accounts that pay performance-based fees and client accounts that pay asset-based fees. Managing performance-based fee accounts and asset-based fee accounts contemporaneously presents the potential for conflicts of interest, including: (a) investment opportunities being unfairly allocated to performance-based fee accounts; and (b) trading being undertaken for performance-based fee accounts ahead of other accounts. The Barings Group has implemented policies and procedures that are designed to address these potential conflicts of interest, including procedures governing the fair allocation of trades and investment opportunities.

Please refer to Item 12 of this brochure for a discussion of BIIL's trade aggregation and allocation procedures.

## **Item 7 – Types of Clients**

BIIL's clients generally include public pension plans, ERISA plans, investment companies, private funds, corporations, charitable organizations, endowments and foundations.

BIIL will not generally accept individual discretionary accounts that are smaller than \$10 million dollars, unless such accounts are expected to reach such level by way of additional contributions within a reasonable time. The minimum amount for investing in certain private funds managed by BIIL varies by private fund and is set forth in each private fund's offering documents.

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

### **Methods of Analysis**

#### ***Equity***

The Barings Group's equity investment process employs a Growth at a Reasonable Price ("GARP") philosophy that focuses on markets, sectors and stocks with the greatest potential earnings growth surprise. The Barings Group seeks to avoid stocks where it believes either the earnings potential is largely discounted or where the low valuation reflects the Barings Group's view of future earnings disappointment.

This process is driven by fundamental research and analysis of countries, sectors and stocks by the Barings Group's teams of company and policy analysts.

#### ***Fixed Income***

The Barings Group's fixed income investment process employs top-down macro-economic analysis in order to develop economic scenarios, which are used to construct various model portfolios. The model portfolios reflect a range of possibilities as to how fixed income markets could change over the near term, with each scenario outlining potential economic changes and market movements over the period. The portfolio manager will try to assemble a portfolio, which will perform well under most of the scenarios.

This process is driven by fundamental research of government, currency, and credit sectors in all major fixed income markets.

#### ***Asset Allocation***

The Barings Group's asset allocation process employs a forward looking analysis for each asset class to determine its long term return estimates, risk factors, and asset correlation. Return estimates are derived from estimated growth, productivity, and dividend levels for each major economy. The risk within each asset class is measured by its volatility and then its correlation – or how the asset classes perform relative to each other. The Barings Group uses the results of the forward looking analysis of these factors to apply an asset allocation to portfolios.

This process is driven by fundamental research of each major economy.

### **Investment Strategies**

#### ***Equity Investment Strategy***

The Barings Group's equity investment strategy considers the relative influence of stock, sector, and country-specific factors for each individual stock. The Barings Group builds portfolios of

stocks that integrate the Barings Group's views on sectors and countries with the stock specific analysis.

Stocks that have been favorably rated by the Barings Group's analysts are reviewed by portfolio managers for conviction level of each stock. This level of review contributes to the analysis of these particular stocks and often identifies early warning signals, underlying issues, and early opportunities. The Barings Group will typically not own stocks that have been poorly rated by its analysts (or own them only if there is a portfolio structuring need) and preference is given to those stocks on the "best ideas" list, where available.

When constructing the portfolio, the Barings Group controls risk using a systematic, disciplined approach. The Barings Group adheres to the strict use of portfolio construction guidelines, including region, sector, and stock limits. The Barings Group conducts regular analysis of portfolio characteristics using investment analytical software. The Barings Group also performs sensitivity analysis to identify how the portfolio would perform under changes in the macro-economic environment. Once finalized, the strategy is then tailored for individual client portfolios by incorporating performance and risk objectives, investment restrictions, and hedging strategies.

Consistent with the high conviction nature of the Barings Group's analysis, in some product lines, each stock will represent a similar portfolio weight (i.e. 'flat portfolio') and this reflects the expectation that all investment ideas have an equal opportunity to add value.

### ***Fixed Income Investment Strategy***

The central part of the Barings Group's fixed income investment strategy incorporates the use of scenarios. The Barings Group models a number of possible ways in which the outlook could change over the next twelve months, with each scenario outlining potential economic changes and market movements. The Barings Group focuses on the three most likely scenarios. Each scenario contains a set of forecast returns for all investable assets, which are used in construction of portfolios within specific mandates.

The Barings Group reviews each portfolio using optimization techniques incorporating the Barings Group's forecasts across the range of fixed income asset classes, which involves looking at the model portfolio under each of the existing scenarios. The optimization exercise produces options as to how a portfolio may be adjusted to improve its risk/return characteristics. Ultimately, the Barings Group strives to construct portfolios that will outperform under at least two of the three scenarios and minimize the underperformance under the remaining scenario within the permitted risk tolerance, although this result cannot be assured.

### **Risks**

Investing in securities involves various risks, including the risk of loss and those risks described below, which clients should be prepared to bear. Investors in a private fund should refer to the

applicable fund's offering documents for a more complete discussion of the risks associated with an investment in a particular fund.

### ***Foreign Investment Risk***

Investing in foreign issuers or securities principally traded overseas may involve certain special risks due to economic, political and legal factors, including, without limitation, favorable or unfavorable changes in currency exchange rates, expropriation of assets or nationalization, imposition of withholding taxes on dividend or interest payments and possible difficulty in obtaining and enforcing judgments against foreign entities. Additionally, issuers of foreign securities are often subject to less comprehensive legal and accounting reporting and disclosure requirements than U.S. issuers. There may generally be less information available about foreign companies than about domestic companies. The securities of some foreign governments and companies and foreign securities markets may be less liquid and at times more volatile than comparable U.S. securities and securities markets. Foreign brokerage and other fees generally are higher than in the U.S. The laws of some foreign countries may limit an investor's ability to invest in securities of certain issuers located in these foreign countries. It may also be difficult to enforce contractual obligations in non-U.S. jurisdictions, and transactions in some non-U.S. markets could be subject to extended clearance and settlement periods.

### ***Emerging Market Countries Risk***

The performance of Emerging Country securities can be adversely affected by political, economic and social factors which would not normally be encountered in developed countries. These factors include (a) the inability or unwillingness of a country to continue to service its debt obligations or governmental interference with servicing or repayment of interest and/or capital of debt obligations; (b) coups d'états, civil wars, rebel insurgencies, social and political unrest; (c) uncertainties regarding political succession and the absence or fragility of democratic institutions; (d) economic mismanagement as a result of inappropriate political policies or a lack of competence or experience on the part of politicians and bureaucrats in dealing with complex economic issues and problems; (e) inappropriate monetary and fiscal policies leading to high inflation, high taxes, and high interest rates; (f) unfavorable policies affecting foreign investors such as nationalization of assets, the imposition of special or high taxes, restrictions with respect to the repatriation of income and capital and the capricious enforcement of policies and laws; (g) political favoritism and corruption; (h) difficulties in obtaining judgments or otherwise the legal enforcement of rights; and (i) the vulnerability of banking institutions and poor levels of banking supervision.

The performance of Emerging Country securities can be adversely affected by external threats not normally seen as being as critical in the case of developed countries. These threats include the vulnerability of Emerging Countries to changes in international capital flows and protectionist measures on the part of major trading partners.

Emerging market securities may be further impacted by low trading volumes and thin market capitalizations, resulting in high price volatility, low portfolio liquidity and less diversification of

investments within countries and among countries. Trading expenses, including commissions, are usually higher than in the U.S. Settlement and clearing procedures are usually relatively underdeveloped and may cause additional delays and costs in realizing upon investments or in making investments.

Emerging Country securities available for investment may often be considered speculative and debt securities may not be rated for credit-worthiness. The limited availability or poor quality of financial information and disclosure and the poor quality of supervision by governmental and self-regulatory organizations may increase the risks involved in investing in Emerging Country securities.

Emerging Country securities denominated in the local currency of an Emerging Country may be subject to sudden declines in value as a consequence of currency devaluations or sharp declines in the market value of the local currency.

Emerging Country securities may not be liquid. This may restrict the ability to dispose of investments in a timely fashion for a fair price as well as the ability to take advantage of market opportunities.

### ***Equity Securities Risk***

Equity securities can be volatile and may expose holders to risk of rapid and substantial loss.

### ***Fixed Income Securities Risk***

The market value of bonds, debentures, notes and other fixed-income debt instruments will vary with interest rates. When interest rates rise, the value of securities with a fixed rate of interest generally will decline. Conversely, when interest rates fall, the value of such securities generally will increase. Securities of this type with longer terms to maturity are subject to greater fluctuations in value than securities with shorter terms to maturity. Fixed income securities are subject to market and credit risk. Credit risk relates to the ability of the issuer to make payments of principal and interest. The values of fixed income securities may be affected by changes in the credit rating or financial condition of the issuing entities.

Rating agencies are private services that provide ratings of the credit quality of fixed income securities including convertible securities. Ratings assigned by a rating agency are not absolute standards of credit quality and do not evaluate market risks. Rating agencies may fail to make timely changes in credit ratings and an issuer's current financial condition may be better or worse than a rating indicates. The Barings Group does not rely solely on credit ratings, and develops its own analysis of issuer credit quality.

### ***Non-U.S. Government Securities***

Investment in securities issued by governments other than the U.S. involves special risks and the securities of certain non-U.S. governments are not of investment grade credit quality. Sovereign

debtors' willingness or ability to repay may be affected by political, social or diplomatic factors in addition to economic factors. Changes in trade policy by large trading partners of an issuer may affect the issuer's capacity to meet its interest and principal obligations. Countries whose exports are primarily of a small number of commodities are vulnerable to price fluctuations in that commodity. Additionally, actions by a country's creditor banks, supra-national bodies (such as the World Bank or the International Monetary Fund) or sovereign creditors may impose restrictions on the ability of sovereign issuers to pay interest and principal. All of these risks are heightened when the issuing government is in a lesser developed country.

### ***Forward Foreign Exchange Contracts Risk***

Forward contracts may involve certain risks different from those presented by traditional securities investments. By entering into such transactions, a client may forgo the benefits of unanticipated, advantageous changes in exchange rates. In addition, a client may sustain a loss resulting from the failure of the other party to the forward contract to comply with the contract's terms. The forward contracts into which the Barings Group enters principally are privately negotiated contracts that are not traded on any exchange. The credit risk for any exchange-traded derivative contracts (such as foreign currency futures contracts), generally is less than for privately negotiated derivatives contracts (such as currency forwards), since the clearinghouse, which is the issuer or counterparty to each exchange-traded derivative, provides a guarantee of performance. This guarantee is supported by a daily payment system (typically margin requirements) operated by the clearinghouse to reduce overall credit risk. Because such protections do not exist with privately negotiated contracts, the Barings Group considers the creditworthiness of each counterparty to a privately negotiated contract.

### ***Private Funds Risk***

The market value of private funds is based on the value of their underlying portfolio securities. Risks may arise as a result of the specific characteristics of each private fund.

Private funds are excluded from the definition of an investment company under the Investment Company Act of 1940, as amended (the "1940 Act"), and therefore the provisions of the 1940 Act generally do not apply to private funds. Among other things, the 1940 Act (1) imposes limitations on certain types of investments, (2) requires that a fund's board of directors (including disinterested directors) approve certain of a fund's activities and contractual obligations, (3) prohibits a fund from engaging in certain transactions with its affiliates, (4) requires shareholders to vote on certain matters and (5) regulates the relationship between a fund's investment adviser and the fund. These and other protections afforded to investors by the 1940 Act generally will not apply to investors in private funds.

**Item 9 – Disciplinary Information**

Neither BIIL nor its management persons have been involved in any legal or disciplinary events that would be material to your evaluation of BIIL or the integrity of BIIL’s management.

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

BIIL provides investment management services to private funds that are sponsored by other members of the Barings Group. From time to time, Massachusetts Mutual Life Insurance Company, BIIL's ultimate parent company, provides seed capital in connection with the launch of new private funds.

BIIL is affiliated with Babson Capital Securities LLC ("Babson"), a limited purpose broker-dealer registered with the SEC pursuant to the Securities Exchange Act of 1934, as amended, and a member of the Financial Industry Regulatory Authority. Babson facilitates the sale of the private funds that are managed by BIIL and other members of the Barings Group.

BIIL is the sub-adviser to several registered investment companies that are sponsored and advised by Massachusetts Mutual Life Insurance Company.

The Barings Group provides investment management services to clients on a global basis, and includes three SEC registered investment advisers (BIIL, Baring Asset Management LLC ("BAM LLC"), and Baring Asset Management (Asia) Limited ("BAMA")) that provide investment management services to U.S. clients. With client consent and pursuant to inter-company delegation agreements, BIIL delegates certain of its investment management duties to BAM LLC, located in the United States, and BAMA, located in Hong Kong. Additionally, BAM LLC delegates certain of its investment management duties to BIIL.

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

BIIL has adopted a Code of Ethics (the “Code”) relating to the standard of conduct required of all its employees. The Code covers certain activities, such as personal account dealing, undertaking third party activities, and gifts and hospitality.

### **A. Personal Account Dealing**

BIIL’s employees may trade in securities for their personal accounts that are purchased, held and sold by or on behalf of BIIL’s clients, which may present a potential conflict of interest; however, such personal securities transactions are subject to limitations, as set forth in the Code.

Employees must receive prior written approval before effecting any personal securities transaction, absent an exemption in the Code. Generally, employees are prohibited from engaging in personal account trades in securities that are being considered for purchase or sale by the Barings Group on behalf of its clients. Employees are prohibited from engaging in personal account trades for three business days before and three business days after that security is traded on behalf of a client’s account. Certain types of personal account transactions, such as participation in initial public offerings and private equity investments, receive heightened scrutiny. BIIL may prohibit any employee from engaging in a personal account trade.

Access Persons, as such term is defined in the Code, are also required to make periodic reports to BIIL’s Organisational Risk and Compliance Department, including an initial securities holding report, quarterly reports of personal account trades, and annual reports of securities holdings.

Employees are required to sign and acknowledge their receipt of the Code and any amendments thereto. BIIL’s Organisational Risk and Compliance Department administers the Code, by obtaining trade confirmations of personal account trades by employees and comparing the trade confirmations to trades made by BIIL on behalf of its clients. The Organisational Risk and Compliance Department may also sanction employees (including dismissal) for any breach of the Code.

BIIL’s Organisational Risk and Compliance Department may grant waivers to the prohibitions set forth above. For example, the Organisational Risk and Compliance Department may grant waivers where the proposed activity could not reasonably be expected to disadvantage BIIL’s clients.

### **B. Undertaking Third Party Activities**

BIIL’s Code requires its employees to obtain prior permission before undertaking, or continuing to undertake, any external activity of a professional, business or other occupational nature of any kind.

### C. Gifts and Hospitality

BIIL's Code places restrictions on its employees' giving and receiving of gifts and hospitality. BIIL's employees are prohibited from offering or accepting a gift or hospitality which could compromise their business judgment, could conflict with their duty to BIIL and/or BIIL's clients or could appear to others to compromise their business judgment. BIIL's employees may participate in giving and accepting gifts and hospitality that are for legitimate business purposes, such as building normal business relationships, subject to the limitations set forth in the Code.

### D. Other Interests

BIIL may invest client assets, or recommend that clients invest, in registered investment companies or unregistered private funds sponsored and advised by BIIL or its affiliates.

BIIL will provide a copy of its Code of Ethics to any client or prospective client upon request.

## **Item 12 – Brokerage Practices**

### **Investment and Brokerage Discretion – General**

BIIL is retained on a discretionary basis and is authorized to determine securities and other investments to buy or sell and to direct execution of portfolio transactions without prior client consultation. However, clients may limit discretionary authority in terms of broker selection.

### **Best Execution**

Trading on behalf of BIIL's clients is executed by the centralized dealing desks of the Barings Group, which are located in London and Hong Kong. The traders for the Barings Group take all reasonable steps to obtain the best results for clients taking into account price, cost, speed, likelihood of execution and settlement, size, nature or any other considerations relevant to the execution of a client's order.

In all matters relating to order execution, traders select brokers, dealers and counterparties (the "Broker") strictly on the basis of their ability to provide "best execution", given the trading strategy that has been adopted as the best possible means of implementing a particular investment decision. This means that the choice of the most appropriate strategy will affect the choice of the Broker, but that the combination of these two choices will in the professional opinion of the trader result in the optimal execution of the investment decision. Best Execution is executing the order with the intention of maximizing the value of client portfolios in the particular circumstances at the time.

There are two types of Broker relationships: "Full Service", where the broker is being paid a commission for executing a trade, and also for research or execution related services, and "Execution only", where the Broker is being paid only to execute an order.

The Barings Group receives a benefit by using client brokerage commissions to obtain research, to the extent the Barings Group does not itself have to produce or pay for the research, products or services. As such, the Barings Group may have an incentive to select or recommend a Broker based on receiving the research or other products or services, rather than on receiving the most favorable execution. The Barings Group has controls in place to mitigate this potential conflict of interest in that its primary consideration in establishing a Broker relationship is the quality of execution. The Barings group may select a "Full Service" Broker even if commissions they charge are greater than the amount of commissions another broker or dealer might charge, provided, however, that the "Full Service" Broker meets the Barings Group's criteria for execution, notwithstanding the research or other services provided.

The Barings Group selects Brokers based on a number of criteria, including: (i) quality of execution; (ii) provision of market intelligence, Brokers risk capital, advice on trading strategies and the quality of possible trading opportunities that are offered; (iii) quality of post execution services provided - trade confirmation and trade settlement; and (iv) technical advancements which benefit order execution. The Barings Group may add Brokers to the Barings Group's

Authorized Broker List provided the Brokers meet the minimum criteria set by the Barings Group's Counterparty Credit Committee. The Barings Group continually reviews the Authorized Broker List for any changes in the credit worthiness of any of the Barings Group's Brokers.

Dealing commission is generated on equity transactions. Part of this dealing commission relates directly to the cost of executing the transaction. Where "Full Service" Brokers are used, the Barings Group uses the residual amount to purchase goods and services that relate to the execution of trades or the provision of research either provided by the executing Broker or a third party. Where such services are provided by a third party, the Barings Group makes payment under a "Commission Sharing Agreement," whereby the Barings Group may direct either a Broker, to whom a commission has been paid, or the Barings Group's independent third party commission sharing agent, to pay it directly to a third party provider of the services.

Within the Barings Group's definition of services classifiable as "research," the Barings Group includes some electronically delivered services and products from providers such as Bloomberg, Reuters and Factset. The Barings Group regards these as research services as they are not suppliers simply of data, but of data that has been arranged, sorted and/or manipulated to create new data that has been the subject of sophisticated intellectual processes. The Barings Group considers this to constitute research and it is used by the portfolio managers in their decision making processes.

The Barings Group is organized on a global basis and approaches the use of dealing commission arrangements on a group-wide basis, and therefore research obtained through the payment of dealing commissions generated from a particular client's portfolio may not necessarily be utilized in the provision of services directly related to its portfolio. Conversely, a client may benefit through the utilization of research paid for by dealing commissions which have been generated from other client portfolios. Research paid for by commissions is not systematically allocated among accounts in proportion to the commissions the accounts generate.

Where the Barings Group receives products or services that are not used exclusively for brokerage and research, the Barings Group, based upon its own good-faith allocation of expected use, bears the portion of the cost of such services not related to their brokerage and research use.

The Barings Group carries out Broker reviews semi-annually, although the value obtained from the services provided by Brokers is assessed daily in the course of dealings with them. The Barings Group carries out the reviews from two perspectives: the first is of the Broker as a provider of execution services; the second is of the Broker, or other counterparty or supplier, as a provider of research services, where such services are utilized.

The Barings Group makes a quarterly assessment of the average commission rates being paid in the market for each asset class, geographic region and type of investment. The Barings Group endeavors to ensure that the commission rates it will pay in the succeeding quarter are in line with these averages. The Barings Group utilizes the services of an independent third party

transaction cost analysis provider to compare the commission rates being paid against the market averages.

During the period from January 1, 2011 through December 31, 2011, the Barings Group acquired the following types of products and services with client brokerage commissions: (i) broker research; (ii) independent research; and (iii) data services. Examples of such broker and independent research included: (i) written research reports; (ii) macro-economic data covering countries and sectors; (iii) company research reports; (iv) subscriptions to specialist publications; (v) introductions to company management; and (vi) access to analysts. An example of data services included certain Bloomberg services.

Fixed income and foreign exchange trades are not subject to commission payments since it is market custom that they are dealt on a “net price” basis. When trading standard exchange traded derivatives, execution fees are calculated on a contract-by-contract basis. The Barings Group's Head of Trading reviews these rates annually to ensure that they are competitive in the market.

Since commissions are not paid for fixed income trades, their transaction cost analysis focuses on bid/ask spread and other implicit costs of trading. The Barings Group currently monitors all historical quotes from Brokers to identify those that consistently provide the best quotes for the Barings Group's trades. The Barings Group also compares Broker execution prices with average bid/ask spread obtainable in the market. This comparison is to verify the fairness of the level of bid/ask spreads that brokers have charged to the Barings Group's trades. The Barings Group's traders along with the Head of the Fixed Income investment team review these results on at least a semi-annual basis.

#### **Directed Brokerage Arrangements**

Clients may direct BIII to execute transactions through a particular broker-dealer. In doing so, however, the Barings Group may be unable to achieve the most favorable execution of such client's transactions. In a directed brokerage account, a client may lose the possible advantage which non-directing clients derive from the Barings Group's negotiations of competitive brokerage terms, including commission rates, and from the aggregation of orders.

#### **Trade Aggregation and Allocation**

In certain circumstances, the Barings Group may aggregate orders for discretionary accounts. The Barings Group's dealers generally seek to aggregate orders for more than one client in circumstances where they reasonably believe that aggregating will result in a more favorable overall execution. Due to market factors, such as market movements or the liquidity of the security, it may not be possible to receive the same execution price or to execute the entire order. In such circumstances, the Barings Group may allocate trades at the average price of the executed trade. However, there may be situations where such allocation is not possible due to the uneconomic size of the trades involved. The Barings Group seeks to allocate trades on a fair and equitable basis.

### **Trades Executed by Clients**

Although the majority of our clients allow us full trading discretion, in a limited number of circumstances, clients have elected to execute their own securities transactions based upon our investment recommendations. In those situations, such investment recommendations may be the same as those that we will execute for accounts for which we have full trading discretion.

Typically, we simultaneously communicate such investment recommendations to both those clients who execute their own transactions, as well as to our trading desk. Clients who execute their own transactions may have internal procedures that they follow prior to execution that may delay the timing of such execution until after our trading desk has begun to trade. These delays may be significant and may adversely affect the price that clients who execute their own transactions obtain. If there are no significant delays, those clients who execute their own transactions may find themselves competing against our trading desk in the market for the securities in question, which could have an adverse impact on the price obtained by such clients.

### **External Cross Trades**

In some instances, a security to be sold for one client account may independently be considered appropriate for purchase for another client account. In such cases, the Barings Group may cause the security to be “crossed” between the relevant accounts. With this type of “cross” transaction, both the buy and sell orders are placed directly with one independent broker that executes the orders at the mid-market price determined at the time of execution. The independent broker then charges each account a reduced brokerage commission for the “cross” transaction (unless prohibited by applicable law).

No external cross transactions will be undertaken unless the Barings Group determines it is in the best interest of each account and in accordance with all applicable regulations. In instances in which one or both of the accounts is a registered investment company, such transactions will be undertaken in accordance with rule 17a-7 under the Investment Company Act of 1940. No such transactions will be undertaken with respect to any account governed by ERISA, unless in accordance with applicable ERISA rules and regulations.

## **Item 13 – Review of Accounts**

### **Account Reviews**

The Barings Group seeks to deliver a consistent investment process in which the Barings Group's investment policy is reflected in the portfolio of each client, and customized to the client's own investment objectives, guidelines and restrictions. In pursuit of that goal, the Barings Group utilizes the following four basic levels of account review: (1) portfolio managers review their accounts to ensure that transactions undertaken conform with the client's investment guidelines; (2) client service representatives review accounts periodically to ensure that portfolios conform to the client's investment guidelines; (3) accounts are run through Sentinel, an automated compliance monitoring system, on a pre- and post-trade basis; and (4) the Organisational Risk and Compliance Department reviews client accounts pursuant to a set schedule and on an ad hoc basis, as deemed necessary.

The portfolio manager performs on-going reviews to ensure that the investment focus and holdings of the portfolio are consistent with the Barings Group's policies and the client's own investment guidelines. Each portfolio manager has immediate access to information relating to portfolios within their responsibilities for evaluation whenever needed. Portfolio managers review their accounts at the time of any trade or policy allocation decision (e.g. asset allocation between bonds and equities, if applicable, country allocation and sector exposure, as well as other statistical measures, to include risk relative to benchmark indices).

Client service representatives perform reviews on a quarterly basis to verify that accounts are managed in accordance with the Barings Group's policies and the client's own investment guidelines. Additionally, client service representatives meet with each client based on client specific requirements. As part of the meeting, the client service representative provides a comprehensive presentation on the state of the client's portfolio.

The Barings Group maintains an automated investment guideline checking system, Sentinel. Sentinel's sophisticated rule engine permits the Barings Group to code complex and flexible rules for automated pre- and post-trade checking, against both proposed orders and actual portfolio holdings. The Barings Group codes both client mandated and regulatory guideline restrictions on Sentinel.

Prior to any trade being executed, it is checked by Sentinel to ensure that if the trade were executed, the portfolio would still be in compliance with its investment guidelines. After a trade has been executed, Sentinel checks that the new portfolio structure is in compliance with its investment guidelines. This ensures that the trade has been correctly executed and confirmed. Additionally, automated overnight checking of all positions occurs to identify potential passive breaches caused by the market or other activity outside of the Barings Group's control. This ensures that changes in market prices have not moved portfolios to be in breach of their investment guidelines.

Manual controls exist for the management of rules that cannot be programmed into Sentinel as structured rules, but impact the decision making and trade implementation processes. Manual checks are conducted at both the pre-and post-trade stages of trade implementation to cover these non-programmable guideline restrictions.

BIIL's Organisational Risk and Compliance Department conducts routine monitoring of client accounts on a sample basis. The Organisational Risk and Compliance Department may also perform a review of client accounts on an as needed basis and may perform investigations of potential breaches as necessary.

### **Client Reporting**

BIIL provides its clients with standard written reports covering their account, including quarterly investment review and monthly valuation reports. The quarterly investment review reports include information on performance, attribution analysis and investment commentary. The monthly valuation reports include information on transactions and valuations as of the end of each month. BIIL may provide additional reports to its clients based on client specific requirements.

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

The only source of compensation for BIIL is derived from client fees for providing investment management services to clients.

Certain investors in the Canadian pooled investment trusts, for which BIIL acts as the investment adviser, have engaged an independent third-party consultant to provide such investors with portfolio manager search and selection services. With the help of this independent third-party consultant, those investors have determined to invest in the Canadian pooled investment trusts. Pursuant to an agreement between BIIL and the independent third-party consultant, BIIL has agreed to pay the independent third-party consultant a fee, equal to a percentage of the initial investment made by such investors in the Canadian pooled investment trusts that were referred to BIIL by the independent third-party consultant. The investors have each acknowledged their understanding of and provided their consent to this arrangement.

With the exception of above, BIIL does not directly or indirectly compensate any person, other than employees of the Barings Group, for client referrals.

## **Item 15 – Custody**

BIIL's clients deposit the assets BIIL manages on the client's behalf in separate accounts maintained by third-party custodians of the client's choice. As such, BIIL does not have custody, or the authority to obtain custody, of any client assets or securities in BIIL's role as investment manager.

**Item 16 – Investment Discretion**

BIIL has discretionary authority to manage accounts on behalf of its clients. BIIL accepts discretionary authority pursuant to written investment management agreements with its clients. In all cases, however, BIIL exercises such discretionary authority in a manner consistent with the stated investment guidelines for the particular client account.

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

For those clients that delegate authority to BIIL to vote proxies, BIIL votes proxies pursuant to the Barings Group's Proxy Voting Policies and Procedures. The Barings Group's Proxy Voting Policies and Procedures are designed to ensure that votes are cast in accordance with the best economic interest of clients. The Barings Group employs Institutional Shareholder Services ("ISS"), an independent third party service provider and a recognized authority on proxy voting and corporate governance, to vote clients' proxies according to ISS's proxy voting recommendations. ISS also provides proxy analysis, vote recommendations, vote execution and record-keeping services for clients for which the Barings Group has proxy voting responsibility.

BIIL votes proxies on all proposals, except in those instances when the portfolio manager, with guidance from the Barings Group's Proxy Voting Committee, if desired, determines that the cost is outweighed by the economic benefit to the clients of voting those proxies or when it is in the best interests of clients to abstain from voting. For example, some non-U.S. securities issuers impose fees on shareholders or their custodians for exercising the right to vote proxies. Other issuers may "block," or prohibit, shareholders from transferring or otherwise disposing of their shares for a period of time after the securities holders have notified their intent to vote their proxies. Moreover, some issuers require the registration of securities in the name of the beneficial owners before permitting proxies to be cast, and thus mandate the disclosure of the identity of beneficial owners of securities, which may be contrary to the wishes of clients.

Portfolio managers may override ISS recommendations if they believe that ISS's recommendations are not in accordance with the best economic interests of clients. In the event that the portfolio managers disagree with an ISS recommendation on a particular voting issue, the appropriate portfolio manager shall document in writing the reasons that the portfolio manager believes that the ISS recommendation is not in accordance with clients' best economic interests. The portfolio manager then refers their rationale to the Barings Group's Proxy Voting Committee for approval prior to any vote being cast.

There may be instances when ISS makes no recommendation on a proxy voting issue or is recused due to a conflict of interest. In these situations, the portfolio manager will review the issue and, if the Barings Group does not also have a conflict of interest, direct ISS how to vote the proxies. If the Barings Group has a conflict of interest, the Barings Group, in its sole discretion, shall either engage an independent third party to provide a vote recommendation or contact the client for direction as to how to vote the proxies. The Barings Group routinely monitors for any real or perceived conflicts of interest relating to the Barings Group.

Clients may instruct the Barings Group how they would like it to vote proxies on particular issues of corporate governance or other matters, and the Barings Group will be responsible for voting in accordance with the client's instructions.

The Barings Group has established a Proxy Voting Committee, which includes representatives from portfolio management, operations, and legal/compliance and other functional departments as deemed appropriate, who are knowledgeable regarding the proxy process. The Proxy Voting

Committee holds quarterly meetings to: (i) monitor the Barings Group's adherence to the Proxy Voting Policies and Procedures; (ii) review votes against ISS recommendations or where ISS was conflicted; (iii) review the list of client requests for a copy of the Proxy Voting Policies and Procedures and/or the proxy voting record; and (iv) review new corporate governance issues and industry trends and determine whether changes to the Proxy Voting Policies and Procedures are necessary or appropriate.

Clients that have not delegated authority to BIIL to vote proxies should receive proxies or other solicitations directly from their custodian. However, those clients may contact BIIL with questions regarding particular solicitations.

Clients may obtain a copy of the Barings Group's Proxy Voting Policies and Procedures or information about how the Barings Group voted securities for a client's account, upon request.

## **Item 18 – Financial Information**

BIIL currently has no financial obligations that would impair its ability to meet its contractual commitments to clients, and has not been the subject of a bankruptcy proceeding.