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This Brochure provides information about the qualifications and business practices of Declaration Management & Research LLC ("Declaration"). If you have any questions about the contents of this Brochure, please contact us at 703-749-8200. The information in this Brochure has not been approved or verified by the United States Securities and Exchange Commission (the "SEC") or by any state securities authority.

Declaration is a registered investment adviser. Registration of an investment adviser does not imply any level of skill or training. The oral and written communications of an investment adviser provide you with information with which you determine whether to hire or retain such adviser.

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

## **Item 2 – Material Changes**

This Brochure may be requested by contacting Carole Parker, Chief Compliance Officer at [cparker@declaration.com](mailto:cparker@declaration.com). Additional information about Declaration is also available via the SEC's web site [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov). The SEC's web site also provides information about any persons affiliated with Declaration who are registered, or are required to be registered, as investment adviser representatives of Declaration.

Pursuant to SEC rules, we must deliver to you a summary of any material changes to this Brochure and any subsequent Brochures within 120 days of the close of our fiscal year. We may further provide other ongoing disclosure information about material changes as necessary. We will further provide you with a new Brochure as necessary based on changes or new information, at any time, without charge.

This Item summarizes specific material changes that are made to this Brochure and references the date of our last annual update of this Brochure.

This Brochure was first published on March 30, 2011. On December 14, 2011 we updated our response to Item 11 – Code of Ethics. On March 29, 2012 we extensively revised and updated our responses to Item 8 – Methods of Analysis, Investment Strategies and Risk of Loss, and Item 10 – Other Financial Industry Activities and Affiliations. In particular, we have described our connections with one of our SEC-registered investment adviser affiliates – Manulife Asset Management (US) LLC ("Manulife AM (US)").

In this version of this Brochure we are disclosing a legal event that is not listed in Item 9 – Disciplinary Information instructions parts A, B or C (which require disclosure of specific legal and disciplinary events presumed to be material for purposes of Item 9), but nonetheless may be considered material to a client's or prospective client's evaluation of our advisory business or the integrity of our management. Also we have revised our responses to Item 6 – Performance-Based Fees and Side-By-Side Management and Item 12 – Brokerage Practices to align our disclosures about trade allocation and aggregation with those of Manulife AM (US), and our response to Item 14 – Client Referrals and Other Compensation to disclose our client referral arrangement with Manulife AM (US).

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#### **Item 4 – Advisory Business**

Declaration Management & Research LLC (“Declaration”), a SEC-registered investment adviser, was formed in 1989 and has offices in McLean, Virginia, New York City and Boston. We are a Manulife Asset Management company, indirectly wholly owned by John Hancock Life Insurance Company (U.S.A.), a unit of Manulife Financial Corporation.

We are a fixed income asset manager specializing in structured finance and credit, including asset-backed securities (“ABS”), mortgage-backed securities (“MBS”) (such as privately issued residential mortgage-backed securities (“RMBS”), commercial mortgage-backed securities (“CMBS”), and U.S. government agency-issued residential mortgage-backed securities (“Agency MBS”)), corporate bonds and distressed credit.

At present, all of our investment advisory services are “investment supervisory services” (i.e. involving the giving of continuous investment advice to a client or directing investments for a client based on investment guidelines and policies developed by or with such client). Clients may impose restrictions on investing in certain securities or types of securities. The types of investments for which we offer advisory services include the following:

(a) Mortgage-related securities, which include RMBS, Agency MBS, CMBS, pass through securities, collateralized debt securities and mortgage derivative products

(b) ABS, which may include pass through securities, collateralized debt securities and asset-backed derivative products

(c) Corporate bonds

(d) U.S. government debt securities (“Treasuries”) and U.S. government agency debt securities

(e) Options contracts on securities and commodities

(f) Futures contracts on intangibles

(g) Other types of derivative products, such as interest rate swaps, caps and floors, credit default swaps, and secured borrowings such as repurchase and reverse repurchase agreements.

Item 8 describes our investment strategies and associated risks.

In special circumstances, and with client consent, we may employ a sub-adviser to co-manage a client's portfolio.

As of December 31, 2011, we managed \$8,791,725,666 of client assets on a discretionary basis and \$395,781,483 on a non-discretionary basis.

## **Item 5 – Fees and Compensation**

This Brochure is delivered only to qualified purchasers as defined in section 2(a)(51)(A) of the Investment Company Act of 1940. SEC instructions allow us to omit disclosure of our fee schedule and certain related information because such information has little utility for institutional and large, sophisticated clients.

The timing of fee payments is negotiated with each client, and fees are payable in arrears monthly or quarterly. Performance based fees typically are based upon capital appreciation, or exceeding specified return benchmarks and may be paid annually. Generally, our advisory agreements with clients do not provide for specific termination dates and are terminable upon 30 days' notice.

The specific manner in which we charge fees is established in each client's written agreement with us. We bill our fees quarterly. Management fees for private fund clients are generally prorated for each capital contribution and withdrawal made during the applicable calendar quarter. Accounts initiated or terminated during a calendar quarter are charged a prorated fee. Upon termination of any account, any unearned fees are promptly refunded, and any earned, unpaid fees become due and payable.

Our clients incur transaction costs. Fixed income securities generally are purchased from their issuer, a dealer acting as principal or a broker acting as agent on a net basis with no commission paid by the client but subject to the seller's pricing including any mark-up. Our fixed income sales in the secondary market are executed on a competitive basis; our fixed income purchases in the secondary market are executed on a competitive basis if multiple quotes are available. Dealers and brokers are selected primarily based on price competitiveness. Item 12 further describes the factors that we consider in selecting dealers and brokers for client transactions.

All of our client assets are maintained with third-party custodial institutions that are not affiliated with us. Our clients choose their custodians, except for certain of our private fund clients the custodians of which have been chosen by us. Custodians negotiate certain charges and fees for their services, which are exclusive of and in addition to our fees.

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

We have entered into negotiated performance fee arrangements with certain qualified clients. In measuring clients' assets for the calculation of performance-based fees, we include realized and unrealized capital gains and losses. Performance-based fee arrangements may create an incentive for Declaration to recommend investments which may be riskier or more speculative than those which would be recommended under an asset-based or other fee arrangement. Such fee arrangements also may create an incentive to favor higher fee paying accounts over other accounts in the allocation of investment opportunities. We have policies and procedures designed to promote and monitor fair and equal treatment of all clients, and to prevent these potential conflicts of interest from influencing the allocation of investment opportunities among clients. More particularly, when an investment opportunity is suitable for more than one account, the opportunity will generally be allocated pro rata among such accounts based on cash availability, account restrictions, regulatory requirements and other relevant factors. There can be no assurances that the allocation of investment opportunities will not be of advantage to one client over another.

## **Item 7 – Types of Clients**

We provide investment advisory services to corporations and other businesses, state and municipal government entities, pension and profit-sharing plans, investment companies (including mutual funds) and their investment advisers, pooled investment vehicles (other than investment companies) and insurance companies.

In general, we require \$25 million to \$100 million of assets to manage a client portfolio. The minimum amount required depends on the investment strategy to be employed on behalf of the client.

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

Declaration focuses its securities investment advisory services on structured finance securities (such as RMBS, CMBS, consumer ABS and Agency MBS) and corporate bonds. Investing involves risk of loss that clients should be prepared to bear.

## *Investment Approach*

We seek inefficiencies in areas where bottom up security analysis can be a competitive advantage. We have experience through full economic cycles in RMBS, Agency MBS, CMBS, corporate bonds, ABS and other assets. We seek to exploit our research advantages in a risk-controlled manner, based on proprietary risk management tools and the experience of our senior investment team which has worked together on average for more than 10 years. Our investment approach is based on security-specific fundamental analysis, although market liquidity, dealer positions and supply-demand imbalances also are factors in our decision making. Sector and capital allocations are informed by top-down considerations and executed through bottom-up security selection. Investment decisions are based on our outlook on efficient risk/reward portfolio combinations, the degree of diversification associated with each client mandate, and each mandate's overall portfolio risk budget and liquidity constraints. We assess the risks associated with numerous investment opportunities and select from among the range of different portfolio permutations incorporating such opportunities in an iterative process.

The investment approach we take when implementing any of our investment strategies may involve a relative value, value and/or absolute value style.

Relative Value Investing. Relative value positions may offer attractive return potential based on our assessment of fundamentals, issue structure and supply-demand conditions. Relative value typically involves active trading. In some client portfolios, long relative-value exposures may be hedged with short positions that are more richly priced and highly correlated in their volatility profile.

Value Investing. The value style allows Declaration to implement its longer term views regarding prepayments, defaults, borrower behavior, liquidity and the potential impact of regulatory actions that may cause distortions in securities pricing. Value positions may involve securities with limited liquidity and the assumed holding period is typically longer than in relative-value investing. Value positions may also involve stressed or distressed assets depending on the mandate.

Absolute Value Investing. Absolute value includes a broad array of assets with particular emphasis on structured finance securities. In absolute value investing, we seek to acquire assets at a substantial discount to intrinsic value which have structural advantages that the market does not recognize or issues which are difficult for many market participants to analyze. These are typically seasoned deals involving collateral pools which can be deconstructed in detail at the loan level.

*Active Core and Limited Term Strategies:* These active fixed income strategies are designed for clients that seek excess returns above standard fixed income market benchmarks such as Barclays Aggregate or Barclays Aggregate 1-3 Year indices. The investment process involves security selection, sector allocation, and risk management. The composition of a particular portfolio reflects the assets in the chosen benchmark and other assets: Treasuries and U.S. government agency debt securities, Agency MBS, corporate bonds, ABS, CMBS, RMBS and/or real estate mortgage investment conduits. From this universe, we construct granular portfolios that are diversified by issue, obligor, sector and sub-sector. Portfolio duration and partial duration exposures generally are close to the benchmark. Security selection is the driver of performance, thus our investment process is focused on bottom-up analysis of assets in the corporate debt, structured credit and MBS sectors. The decision to buy or sell an issue reflects an integration of fundamental research, technical inputs and quantitative analysis. Portfolios are comprised largely of investment grade securities but also may include non-investment grade issues. Material risks in this strategy and these securities are interest rate risk, credit risk, and prepayment or extension risk as further described below under "Strategy and Securities Risks".

*LIBOR Plus Strategies:* These active fixed income strategies are designed for clients that seek excess returns over cash investment alternatives and those who seek "portable alpha." Portable alpha is excess return above a short term index (e.g., 3-Month LIBOR or 3-Month Treasuries) that can be swapped into other return profiles such as, but not limited to, equity indices or long-duration fixed income indices. The typical benchmarks for the active cash portion of LIBOR Plus strategies are 1- or 3-month LIBOR. The universe of assets is primarily senior class RMBS, ABS and CMBS, corporate bonds and collateralized mortgage obligations ("CMOs"). These strategies seek to add value through security selection and sector diversification. Yield curve positioning relative to benchmark can be a secondary source of return. Portfolio duration typically is limited to 1-12 months. Material risks involved with these strategies and securities are interest rate risk, credit risk, and prepayment or extension risk, as further described below under "Strategy and Securities Risks".

*Liability Driven Strategies:* These active fixed income strategies are designed for clients that seek excess returns over a long duration benchmark such as Barclays Long US Treasury Index or the duration of the client's pension liability. The strategy may use cash securities only, in which case the portfolio will hold long bonds. The strategy also may involve a "portable alpha" component (described above in LIBOR Plus Strategies) with a long-duration overlay such as Treasury futures or interest rate swaps. In portable alpha strategies, the cash assets are purchased to seek excess return above a short term index (e.g., 3-Month LIBOR or 3-Month Treasuries) that can be swapped into a long-duration



fixed income index (the “beta overlay”). In portable alpha applications, the universe of cash assets is primarily senior class RMBS, ABS and CMBS, corporate bonds and CMOs. These strategies seek to add value through security selection and sector diversification. Material risks involved with these strategies and securities are interest rate risk, credit risk, prepayment or extension risk, and counterparty risk in cases where an overlay is used, as further described below under "Strategy and Securities Risks".

*Absolute Return Strategies:* These strategies have a large degree of flexibility in portfolio investment guidelines and the ability to buy protection or hedge market-related volatility. Absolute return strategies invest in a wide universe of securities, both long and short. In some mandates, leverage may be employed. Within the allocations to structured credit, we tend to invest in the senior classes of the capital structure, which provides a margin for error if there is slippage in our models or loss forecasts. We favor securities that are complex or idiosyncratic, areas where in-depth analysis and focused, proprietary research and modeling give us a competitive advantage. Material risks involved with these strategies and securities are prepayment or extension risk, other risks particular to MBS and consumer ABS, credit risk, liquidity risk, counterparty risk and leverage, as further described below under "Strategy and Securities Risks".

*Structured Finance:* We manage asset portfolios underlying certain structured finance products, many of which are private funds commonly referred to as collateralized debt obligation vehicles (“CDOs”). The management strategies are based on cash flow sufficiency. The assets underlying these strategies may be both asset-backed and corporate-credit based, and may be in cash or synthetic (credit default swap) form. Material risks involved with this strategy and these securities are credit risk, interest rate risk and counterparty risk, as further described below under "Strategy and Securities Risks".

*Total Return Bond Strategy:* This active fixed income management strategy focuses on income-producing structured finance securities in a portfolio composition not overly exposed to price risk should interest rates rise. The investment thesis seeks to capitalize on the value or relative value in some securitized assets as compared other debt alternatives such as high yield bonds or loans. We observe that many securitized assets backed by real estate mortgages such as RMBS or CMBS are out of favor with investors and are difficult for ratings-sensitive portfolios to hold. As well, market expectations for mortgage pool losses are depressed which causes some securities to trade at discounts to intrinsic value. Our opportunity set – the securitized markets – also includes many floating rate and interest only (“IO”) securities as well as amortizing and short tenor bonds which have tended to exhibit reduced price risk and greater reinvestment potential during periods of wider spreads or higher interest rates. Portfolios using this strategy will invest

in securitized assets ranging from short tenor senior classes to stressed issues or subordinated securities with substantial risk of non-payment and correspondingly higher yields. The tactical weighting across sub-sectors will vary according to our perception of market volatility and liquidity. Smaller portfolio allocations may include consumer ABS, other structured credit securities and corporate bonds. As a diversifier and potential hedge to credit risk, portfolios using this strategy also may invest in assets that tend to benefit from slow mortgage prepayments and slow economic growth, such as IO Agency MBS and RMBS. Currently this strategy does not use leverage or borrowed money. Our structured credit and prepayment strategies within the total return bond strategy reflect the following perspectives:

- Credit Strategies – RMBS and CMBS are complex and collateralized by large pools of loans. For asset managers, barriers to entry include research infrastructure, experience and proprietary loan-level models of diverse loan types. We believe that the opaque nature of the securitization market creates security-specific anomalies, market inefficiencies and resulting profit opportunities to a materially greater degree than is typical in the largely “commoditized” market in the more liquid publicly-traded debt markets.
- Prepayment Strategies – Uncertainty over borrower behavior and the effects of public policy can lead to market inefficiencies, particularly with respect to securities the value of which is materially affected by mortgage prepayments. Declining real estate values and tighter underwriting standards have greatly reduced access to mortgage credit, and prepayment performance will vary significantly based on location, loan type and borrower attributes. We believe that capacity constraints in the mortgage banking industry are likely to persist in a number of market segments, creating the potential for excess return from acquiring securities which the market has materially underpriced.

Material risks involved with this strategy and these securities are credit risk, interest rate risk, concentration, prepayment or extension risk and liquidity risk, as further described below under "Strategy and Securities Risks".

### *Methods of Analysis*

In general the types of securities managed by Declaration require in-depth security-specific credit analysis, structural analysis and/or prepayment analysis. The intent of the analysis is to determine the likelihood and/or timing of any potential cash flows that a security might provide in the future. The risks for credit sensitive securities are generally divided between corporate issuers' willingness or ability to pay future interest and principal and collateral cash flow and valuation issues relative to structured finance securities. In

general, both of these risks expose investors to potential default risk with the primary difference being the nature of the issuing entity and the general use of bankruptcy remote trusts within the structured finance universe. Additionally, in the case of structured finance securities, particularly RMBS, CMBS, Agency MBS and CMBS, there is cash flow timing uncertainty since in many cases all or part of the principal can be repaid at the option of the borrower.

Corporate Debt Securities. Declaration's corporate credit research process is conducted by a team of industry-specific corporate credit analysts that includes personnel from our affiliate Manulife Asset Management (US) LLC. The analysts are assigned a core group of industry sectors and their primary research responsibilities are to the universe of triple-A through double-B rated cash and credit derivative obligors. Analysts also have research responsibilities of select single-B, triple-C and distressed corporate opportunities.

The corporate credit research process is a "bottom-up" oriented process with credit research driving relative value determination. Fundamental credit analysis includes thorough evaluation of financial statement analysis comparing/contrasting company-specific metrics to industry standards; and evaluation of historic credit metrics, with emphasis on expectation of future near- to intermediate-term credit metrics. Qualitative credit analysis includes thorough evaluation of qualitative credit considerations – those not directly related to financial statements; management and competitive strengths/weaknesses, financial policies, regulatory/legal considerations, and event risk; and qualitative credit considerations documented/archived in our proprietary library.

Structured Credit Securities. In RMBS, Agency MBS, CMBS and consumer ABS, the research process covers issuer, servicer, collateral and issue structure. We form an opinion regarding the issuer and servicer based on several criteria: an evaluation of their unsecured credit by our corporate credit analysts; an assessment of the issuer's personnel, experience and underwriting practices; loss mitigation practices; systems development and utilization; and regulatory compliance.

The analysis of collateral at the loan level is focused on key factors which affect default and severity outcomes: effective loan-to-value, the quality of underwriting in the pool, geographic concentration, loan age, property type, borrower quality, rate reset shocks, and other variables. Stress runs are based on home price change scenarios, the underwriting policies of the issuer, prepayment forecasts and deal vintage.

The analysis of issue structure seeks to quantify the tenor of the security and identify how loan-level losses may affect cash flows on the notes we may purchase. We review the

transaction's structural characteristics including credit enhancement, loss or delinquency triggers, cash flow waterfall, and allocation of losses.

### *Risk Management*

In each securities strategy, we seek to control portfolio volatility in “normal” and “shock” regimes. In long-only active core strategies, we measure portfolio volatility against the benchmark given client risk budget preferences. In LIBOR-based and alternative strategies, we focus on portfolio tracking error versus risk budget or volatility targets, as well as the likelihood of generating sub-LIBOR or sub-zero returns in a given month, quarter or year. As a bottom up manager, our risk management process centers on the probable effects of security-specific exposures (long or short positions).

For risk and portfolio management, we use various databases and a proprietary management infrastructure as our platform. External sources for data, research and third party risk systems include Bloomberg, Point Yield Book, Capital IQ, Loan Performance, ABSNet, Intex, Trepp, Real Point and others. We use these systems to obtain risk measures, run cash flows, analyze deal structure, model default frequencies, aid in compliance testing and in surveillance monitoring.

For some strategies, we may use scenario and stress test analysis to project the maximum annual expected mark-to-market losses (“drawdown”) under both “normal” and “stressed” market conditions. Although this analysis involves estimates and forecasts, it can be helpful in allocating capital efficiently across a variety of portfolio choices. Declaration focuses on risk-efficiency and adjusts each portfolio's risk exposures actively and opportunistically. The degree of active asset allocation will vary depending on the nature of the mandate and the breath of asset classes available within a mandate's opportunity set. Risk may be managed more aggressively during periods when we believe that the available assets or sectors offer ample compensation (risk-adjusted excess returns), and more conservatively when we believe that such assets or sectors are fully valued or when we discern fewer pricing anomalies.

In all cases, clients are exposed to the risks that actual results differ from model forecasts and that individual securities experience a shortfall in cash flow (default) or suffer adverse market price movements as a result of other market participants anticipating poor performance and/or a lack of overall demand for that security or type of security (lack of liquidity). Additionally, market-wide disruptions or liquidity events (such as occurred in 2008) involving investors and dealers in these types of securities can lead to significant price declines independent of the securities' creditworthiness. This liquidity risk can be

severe and unpredictable and accordingly clients may suffer “mark to market” losses that are not necessarily related to individual security performance.

### *Strategy and Securities Risks*

#### General Risks.

*Risk of Loss:* There can be no assurance that any Declaration strategy will achieve its objective or avoid losses. Declaration’s past performance implementing its strategies is not a guarantee, is not necessarily indicative, and may not be representative, of future performance.

*Interest Rate, Market and Credit Risk:* Debt securities in general are subject to interest rate, market and credit risk. Interest rate risk relates to changes in a security’s value as a result of changes in interest rates generally. The prices of fixed-income securities are inversely affected by changes in interest rates. In general, the values of fixed-income securities increase when prevailing interest rates fall and decrease when interest rates rise. If held to maturity, the market value fluctuations of such securities during their term will not affect the ultimate return realized, but nevertheless incur the opportunity costs of allocating capital to fixed-income securities without obtaining any more than a market interest rate. Because they incorporate a resetting of interest rates, adjustable rate securities are less likely than fixed-income securities of comparable quality and maturity to increase or decrease significantly in value when market interest rates fall or rise, respectively.

Market risk relates to the changes in interest rates as well as perception as to the credit strategy of a particular issuer or type of security.

Credit risk relates to the ability of the issuer to make payments of principal and interest. The values of income securities may be affected by changes in the credit rating or financial condition of the issuing entities.

Income securities denominated in foreign currencies are also subject to the risk of a decline in the value of the denominating currency relative to the U.S. dollar.

*Interest-Rate Exposure:* Client portfolios implementing our strategies are exposed to interest rate risk in several respects. Many debt instruments are subject to declines in value if interest rates increase, while others may decline in value as interest rates decrease. In the case of MBS, there is the further concern that the likelihood of default on the underlying mortgage loans increases when interest rates rise.

Duration is a technical term used in the fixed-income markets to mean the sensitivity of a given debt instrument to changes in interest rates. Convexity is a technical term used to

describe the rate of the increase or decrease in the value of an investment as the rate of the increase or decrease in general interest rates varies. Client portfolios implementing certain of our strategies may demonstrate a high degree of negative convexity in some scenarios.

The prepayment element of many MBS creates a significant convexity risk. For example, whereas such a security may decline in value at approximately the same rate as a Treasury security as interest rates rise, at some point the market will conclude that the interest rates have risen to a point that there will be no prepayment of any of the underlying assets, thereby materially extending the duration of a portfolio and its exposure to future interest-rate declines. The differential convexity of securities held by a client portfolio may result in its being subject to materially more interest-rate risk than would a portfolio that held only conventional debt securities, rather than MBS.

*Net Long Positions:* Declaration generally does not hedge its clients' portfolios but rather maintains net long exposures. Portfolios may lose value when fixed income securities generally, or sectors such as structured finance securities or corporate bonds, lose value relative to other assets, irrespective of changes in interest rates. These reductions in value could be the result of adverse credit experience, lack of demand or both.

*Concentration:* Client portfolios implementing certain of our strategies may be concentrated in the volatile, and generally illiquid, MBS markets. Such concentration increases risk, especially as many MBS are likely to exhibit highly correlated price behavior as a result of particular market events.

*Potential for Insufficient Investment Opportunities:* Declaration may not be able to secure a sufficient number of investment opportunities to use the full amount of capital allocated by a client. The activity of identifying, completing and realizing attractive investments is highly competitive and involves a high degree of uncertainty. The availability of investment opportunities generally is subject to market conditions as well as to the prevailing regulatory and political climate.

*Expedited Transactions:* Investment analyses and decisions by Declaration often are undertaken on an expedited basis to take advantage of short-lived investment opportunities. In such cases, the information available to Declaration at the time of an investment decision may be limited, and Declaration may not have access to the detailed information necessary for a full evaluation of a given investment opportunity. In addition, the financial information available to Declaration may not be accurate or based upon accepted accounting methods.

*Discretion and Market Judgment:* While Declaration makes use of quantitative analysis and computer models to assist its trading, its portfolio managers rely heavily on their market

judgment and experience in investing client portfolios. Their discretionary trading decisions may materially underperform alternative approaches.

*Limited Liquidity:* Client portfolios implementing certain of our strategies may include material amounts of illiquid securities. Lack of liquidity can make it economically infeasible to recognize profits on open positions or to close out open positions against which the market is moving. Market illiquidity results in inefficient pricing.

*Counterparties and Brokers:* The financial institutions and counterparties, including banks and brokerage firms, with which our client portfolios trade or invest, may encounter financial difficulties and default on their obligations to our clients. Any such default could result in material losses to our clients. Even if a portfolio does not lose capital on deposit with a given broker or counterparty, financial difficulties incurred by such entity could cause material losses to the portfolio by impeding its ability to execute the transactions necessary to limit losses or capitalize on market opportunities.

*Custody Risk:* The securities and other assets of our clients are held by a number of qualified custodians. The banks and broker-dealers selected to act as custodians may become insolvent, causing such portfolios to lose all or a portion of the assets held by those custodians.

*Reliance on Mortgage Underwriters and Servicers:* The likelihood of MBS being paid is based entirely on payments being made on the underlying mortgages (the default rate) and the loss severity rate on foreclosed mortgages. The quality of the servicing — which will include modifying underlying mortgages in an effort to rehabilitate and resell them as well as foreclosing on the underlying collateral — can materially affect the amounts due on a client's investments and the performance of its portfolio. Declaration must rely on third parties to service the mortgages underlying the MBS held by client portfolios and has no control over such services.

*Reliance on Financial Reporting:* Declaration relies on financial information made available by the issuers of the securities in which its client portfolios invest — in particular, “loan tapes” and comparable information relating to the performance of the loans and other receivables underlying structured finance securities. Declaration may select investments for client portfolios in part on the basis of information and data filed by issuers of securities with various government regulators or made directly available to Declaration by the issuers of securities or through sources other than the issuers such as collateral pool servicers. Although Declaration evaluates such information and data and seeks independent corroboration when it considers it appropriate and reasonably available, Declaration is not in a position to confirm the completeness, genuineness or accuracy of such information and data, and in some cases, complete and accurate information is not

readily available. Declaration depends on the integrity of the management of these issuers and loan servicers as well as the financial and collateral performance reporting processes in general. Recent events have demonstrated the material losses which investors can incur as a result of issuer mismanagement, fraud and accounting irregularities, as well as material inaccuracies and outright fraud in the underwriting standards and process applied to, as well as the documentation and reporting of, the loans and other obligations underlying MBS.

*Reliance on Third Parties:* Declaration relies on third parties to provide different types of data, including real time, raw and calculated data, via the Internet. Declaration's client portfolios could be materially adversely affected if such third parties', or their data providers', computer systems or infrastructure is unable to properly process and calculate the information needed by Declaration to conduct trading.

*Receipt of Confidential Information:* In making investments, especially in distressed debt securities, Declaration may receive material non-public information. Receipt of this type of information may restrict or prevent Declaration from purchasing or selling securities of a given issuer for its clients or otherwise using such information for their benefit.

*Fraudulent Conveyances and Preferences:* Various laws enacted for the protection of creditors may apply to certain debt obligations, although the existence and applicability of such laws vary from jurisdiction to jurisdiction. In general, if payments on an investment are voidable, whether as fraudulent conveyances or preferences, such payments can be recaptured either from the initial recipient or from subsequent transferees of such payments, including a client's portfolio.

*Market Disruptions; Governmental Intervention and Regulation; Dodd-Frank Wall Street Reform and Consumer Protection Act:* In recent years, the global financial markets have gone through pervasive and fundamental disruptions that have led to extensive and unprecedented governmental intervention — a process which is continuing. Such intervention has in certain cases been implemented on an “emergency” basis, suddenly and substantially eliminating market participants' ability to continue to implement certain strategies or manage the risk of their outstanding positions. In addition — as one would expect given the complexities of the financial markets and the limited time frame within which governments have felt compelled to take action — these interventions have typically been unclear in scope and application, resulting in confusion and uncertainty which in itself has been materially detrimental to the efficient functioning of the markets as well as previously successful investment strategies.

Declaration's client portfolios may incur major losses in the event of disrupted markets and other extraordinary events in which historical pricing relationships (on which Declaration



may base a number of its trading positions) become materially distorted. The risk of loss from pricing distortions is compounded by the fact that in disrupted markets many positions become illiquid, making it difficult or impossible to close out positions against which the markets are moving. Market disruptions may from time to time cause dramatic losses for our client portfolios, and such events can result in otherwise historically low-risk strategies performing with unprecedented volatility and risk.

In response to the 2008–2009 financial crises, the U.S. government proposed sweeping reform of the U.S. financial regulatory system. After over a year of debate, the Dodd Frank Wall Street Reform and Consumer Protection Act (the “Reform Act”) became law in July 2010. The Reform Act seeks to regulate markets, market participants and financial instruments that previously have been unregulated and substantially alters the regulation of many other markets, market participants and financial instruments. Because many provisions of the Reform Act require rulemaking by the applicable regulators before becoming fully effective and the Reform Act mandates multiple agency reports and studies (which could result in additional legislative or regulatory action), it is difficult to predict the impact of the Reform Act on Declaration, its clients and the markets in which they trade and invest. The Reform Act could result in certain investment strategies to become non-viable or non-economic to implement. To date, a significant amount of such rulemaking has been delayed, and it may prove impracticable to implement a number of the Reform Act’s provisions in the foreseeable future. It is possible, however, that the Reform Act could eventually result in certain aspects of a client’s strategy becoming non-viable or non-economic to implement. The Reform Act and regulations adopted pursuant to the Reform Act could have a material adverse effect on the profit potential of a client’s portfolio.

A number of the investment strategies employed by Declaration on behalf of its client portfolios are highly regulated. Certain of the investments and strategies pursued by Declaration may come under increased regulatory scrutiny, which may reduce their availability or attractiveness. Changes in the regulation of the markets in which Declaration invests its clients’ portfolios could materially adversely affect certain of Declaration’s investment strategies. For example, the Commodity Futures Trading Commission (“CFTC”) has enacted rules requiring registration as a commodity pool operator or commodity trading advisor for many managers and trading advisors that previously relied upon exemptions from such registration, as well as significant new reporting requirements for commodity pool operators and commodity trading advisors. As a result, Declaration may be subject to limitations on the amount of its futures, forwards and swaps trading, or, in the event of registration, regulatory compliance burdens which could limit the amount of time it would otherwise devote to its clients. The overall impact of the Reform Act and other new regulatory initiatives on Declaration and its clients

remains highly uncertain since many provisions of the Reform Act and other regulations must still be implemented fully.

*Adverse Market Conditions:* The adverse effects of the ongoing credit market disruptions beginning in late 2007 in the global economy may be ongoing or recur. Client portfolios' prospects for profitability may be materially adversely affected by a prolonged recession or economic stagnation.

#### Credit Market Risks.

*Market Risks Generally:* The identification of attractive investment opportunities in credit markets is difficult and involves a significant degree of uncertainty. The credit markets — and the MBS markets in particular — are, in general, highly susceptible to interest-rate movements, government interference, economic news, and investor sentiment. There recently has been significant volatility in the credit markets and such volatility may continue. During periods of market disruption, investments in the credit markets have historically incurred, and are likely in the future to incur, major losses.

*Valuations:* It is not unusual for broker-dealers to provide “bid” and/or “ask” quotations for debt securities on a preliminary or “soft” basis. Such preliminary quotations may or may not reflect the bid or ask prices at which such a broker-dealer would be willing to effect actual transactions in such securities.

Client portfolios implementing certain of our strategies may include substantial positions for which there is only a single broker-dealer quoting prices, which may be preliminary or “soft.” In the absence of actual sale transactions, it is difficult for us to test the reliability of preliminary quotes even when multiple broker-dealers are providing bid and ask prices. Furthermore, if it becomes necessary for a portfolio to liquidate certain of such securities, the actual sales price realized may be materially less than expected — resulting in a downward revaluation of the portfolio.

Similarly, some positions may be acquired for client portfolios because Declaration believes that their market value is materially less than their intrinsic value. The valuation of a number of these positions may be based on Declaration's estimates and models and may prove to be materially inaccurate. If the credit instruments acquired are not, in fact, paid in accordance with their tenor, clients could sustain material losses.

*The MBS Market:* Client portfolios implementing certain of our strategies invest predominantly in MBS. The risk of loss from pricing distortions in the MBS markets is compounded by the fact that in disrupted markets many of these positions may become highly illiquid.

The MBS markets since 2007 have experienced unprecedented disruptions resulting from dramatically reduced demand for mortgage loans and MBS and increased investor yield requirements for those loans and securities. These disruptions are continuing and the secondary market for many types of MBS remains significantly illiquid. The MBS markets are particularly susceptible both to prevailing economic conditions and changes in interest rates as to well as political and regulatory intervention.

Illiquidity in the MBS markets makes the analysis of issuer and servicer creditworthiness problematic. For example, many highly rated issuers depend on the mortgage securities markets to finance, at short-term rates, their longer-term debt obligations. Ordinarily, this is a routine and on-going refinancing process. However, since 2007 the poor performance of mortgage loans has resulted in an inability to refinance, causing widespread bankruptcies and losses by issuers previously judged to be of reliable credit quality. Even more difficult to assess is the creditworthiness and viability of MBS servicers. Without a reliable market in the securities issued by such servicers, it becomes very difficult to assess the creditworthiness or viability of such servicers — both of which directly adversely impact the value of the MBS with which such servicers are involved.

*Mortgage Default Rates:* The default rate has risen dramatically since 2007 on the mortgages underlying many of the types of MBS to be acquired by client portfolios implementing certain of our strategies. These portfolios may invest in mortgage-credit instruments which Declaration believes to be undervalued, only to see such values erode further.

#### Risks Associated with Certain Securities and Other Instruments.

*RMBS and CMBS:* Client portfolios implementing certain of our strategies invest predominantly in RMBS and CMBS. Investing in RMBS and CMBS involves the general risks typically associated with investing in traditional fixed-income securities (including interest rate and credit risk), as well as additional risks particular to the mortgages underlying such RMBS and CMBS. MBS generally provide for the payment of interest and principal on a monthly basis, and there also is the possibility, particularly with respect to RMBS, that principal may be prepaid at any time due to, among other reasons, prepayments on the underlying mortgage loans or other assets. The rate of prepayments on underlying mortgages affects the price and volatility of an MBS, and may have the effect of shortening or extending the effective maturity beyond what was anticipated. Further, different types of MBS are subject to varying degrees of prepayment risk. Finally, the risks of investing in such instruments reflect the risks of investing in real estate securing the underlying loans, including the effect of local and other economic conditions, and the ability of borrowers to make payments.

Prepayments of the mortgage loans underlying RMBS and CMBS may be affected by any number of factors. In general, any factors that increase the attractiveness of selling a mortgaged property or refinancing a mortgage loan, enhance a borrower's ability to sell or refinance or increase the likelihood of default under a mortgage loan, would be expected to cause the rate of prepayment in respect of a pool of mortgage loans to accelerate.

Portfolios of MBS may be backed by residential mortgage loans located in only a few states or regions, and be subject to geographic risks relating to such areas.

*RMBS* – There have been and continue to be severe disruptions in the mortgage market in the United States. Many of the residential mortgages originated in recent years were sold to the capital markets through securitizations, resulting in the originators of these mortgages transferring the originators' exposure to the credit risk of the mortgage borrowers to the investors in these securitizations. As a result, it is reasonable to assume that the originators could have financial incentives to maximize the amount of loans originated irrespective of the credit quality of the borrowers.

The underwriting standards for "sub-prime" and "Alt-A" loans are more flexible than the standards generally used by lenders for borrowers with non-blemished credit histories with regard to the borrower's credit standing and repayment ability. Borrowers who qualify generally have impaired credit histories, which may include a record of major derogatory credit items such as outstanding judgments or prior bankruptcies. In addition, they may not have the documentation required to qualify for a standard mortgage loan. A sharp increase in the rate of delinquencies amongst subprime, Alt-A and some prime loans began in 2007 and contributed to the general crisis in the credit and general financial markets. A significant amount of RMBS continue to trade at prices that represent a substantial discount to their outstanding principal amount.

The underwriting guidelines pursuant to which the RMBS were originated do not prohibit a borrower from obtaining, at the time of origination of the first-lien mortgage loan, additional financing which is subordinate to that first-lien mortgage loan. High loan-to-value ratios may make it more difficult for a borrower to make payments under the related mortgage loans. Since 2007, as U.S. housing values fell there have been widespread defaults on home mortgages and the related RMBS.

Numerous residential mortgage loan originators have recently experienced serious financial difficulties and, in some cases, bankruptcy.

Numerous laws, regulations and rules apply to the lenders and servicers of mortgage loans. Enforcement actions and other litigation have been brought against numerous mortgage lenders and servicers, resulting in materially increased restrictions on their activities and

an environment that may make it more difficult for creditors to collect or foreclose on mortgages in their portfolios. In addition, numerous laws, regulations and rules related to the servicing of mortgage loans, including foreclosure actions, have been proposed and/or enacted recently by federal, state and local governmental authorities, and certain major mortgage loan originators have recently voluntarily imposed moratoriums on foreclosures to reassess whether the foreclosure process has been properly followed. Such laws, regulations and rules, as well as voluntary foreclosure moratoriums, may delay the foreclosure process, reduce payments by borrowers or increase reimbursable servicing expenses, all of which are likely to result in delays and reductions in the payments on the MBS to be made to client portfolios. RMBS investors bear the risk that such, and future, developments will result in losses on their investments, whether due to delayed or reduced distributions or reduced market value.

*CMBS* – CMBS represent interests in (or are secured by) commercial mortgage loans. CMBS are directly affected by payments, defaults and losses on the underlying commercial mortgage loans.

Mortgage loans on commercial properties often are structured so that a substantial portion of the loan principal is not amortized over the loan term but rather is payable at maturity as a “balloon payment”. Consequently, repayment of the loan principal often depends upon the future availability of refinancing from existing or alternative lenders and/or upon the current value and saleability of the real estate.

Commercial mortgage loans underlying CMBS are generally secured by income-producing property, such as multi-family housing or commercial property. The ability of a borrower to repay a loan secured by an income producing property typically depends primarily upon the successful operation of the property rather than upon the existence of independent income or assets of the borrower. In the case of certain commercial mortgage loans, repayment of loans secured by commercial and multi-family properties depends upon the ability of the related real estate project to generate income sufficient to pay debt service, operating expenses and leasing commissions and to make necessary repairs, tenant improvements and capital improvements, and in the case of loans that do not fully amortize over their terms, to retain sufficient value to permit the borrower to pay off the loan at maturity through a sale or refinancing of the mortgaged property. In general, incremental risks of delinquency, foreclosure and loss with respect to an underlying commercial mortgage loan pool may be greater than those associated with residential mortgage loan pools.

CMBS may be backed by an underlying mortgage pool of only a few mortgage loans. Commercial real estate lending generally is viewed as exposing a lender (and the related

CMBS) to a greater risk of loss than certain other forms of lending because it typically involves making larger loans to single borrowers or groups of related borrowers.

The value of the income producing property underlying CMBS is directly related to the net operating income derived from such property. If a commercial mortgage loan is in default, foreclosure on such commercial mortgage loan may be a lengthy and difficult process, and may involve significant expenses. Furthermore, the market for defaulted commercial mortgage loans or foreclosed properties may be very limited.

Additional risks may be presented by the type and use of the particular commercial property underlying the CMBS acquired. Many of such properties are regulated or subject to contractual arrangements which could be terminated, in each case, substantially reducing the value of the property.

A commercial property may not be readily convertible to an alternative use if the operation of such property for its original purpose becomes unprofitable.

A given client portfolio of CMBS may from time to time be backed by mortgage loans with disproportionately large aggregate principal amounts secured by properties in only a few states or regions. Such CMBS are highly susceptible to geographic as well as overall market risk.

Certain of the mortgage loans underlying the CMBS may be made to borrowers organized outside of the United States and/or secured by property located outside the United States. The bankruptcy and foreclosure procedures under the laws of such countries may be materially less protective of the CMBS holder than those applicable in the United States.

Most commercial mortgage loans underlying CMBS are effectively nonrecourse obligations of the borrower, meaning that there is no recourse against the borrower's assets other than the collateral. If borrowers are not able or willing to refinance or dispose of encumbered property to pay the principal and interest owed on such mortgage loans, payments on the subordinated classes of the related CMBS are likely to be adversely affected. The ultimate extent of the loss, if any, to the subordinated classes of CMBS may only be determined after a negotiated discounted settlement, restructuring or sale of the mortgage note, or the foreclosure (or deed-in-lieu of foreclosure) of the mortgage encumbering the property and subsequent liquidation of the property. Foreclosure can be costly and delayed by litigation and/or bankruptcy. Factors such as the property's location, the legal status of title to the property, its physical condition and financial performance, environmental risks and governmental disclosure requirements with respect to the condition of the property may make a third-party unwilling to purchase the property at a foreclosure sale or to pay a price sufficient to satisfy the obligations with respect to the related CMBS. Revenues from the

assets underlying such CMBS may be retained by the borrower and the return on investment may be used to make payments to others, maintain insurance coverage, pay taxes or pay maintenance costs. Such diverted revenue is generally not recoverable without a court-appointed receiver to control collateral cash flow.

Certain of the risks described above under the caption “RMBS” above also apply to CMBS because of their impact on real estate, servicers and originators generally.

*Agency MBS and TBA (“To Be Announced”) Agency MBS:* Agency MBS have many of the same characteristics of non-Agency MBS and are essentially a sub-set of RMBS. Agency MBS may consist of pools of mortgages that are issued by an Agency, may be multi-class MBS and may also be in the form of collateralized mortgage obligations. In addition to being subject to risks related to RMBS generally, Agency MBS may be subject to idiosyncratic Agency-related risks.

A substantial portion of Agency MBS acquired for a given client portfolio may be purchased in the TBA market. In the TBA market, Agency MBS are acquired on an agency basis under a forward contract, with the actual securities not being identified until as late as 48 hours prior to the settlement date. In disrupted Agency MBS markets, the actual securities delivered can result in a materially different investment than had other securities been delivered under a given TBA (while in pre-2007 market conditions Agency MBS were largely generic in nature). There will be incremental risk to such a portfolio in the TBA settlement process.

*Lack of Information Regarding Underlying Assets:* There are no reliable sources of statistical information with respect to the default rates on the assets underlying many of the types of securities included in client portfolios implementing certain of our strategies, and there is substantial uncertainty as to the underwriting standards applied by sub-prime and other mortgage originators. To the extent that our assumptions as to default rates prove materially incorrect, such portfolios are likely to incur material losses.

*Agency-Related Risks:* The financial stability of Fannie Mae and Freddie Mac, two of the largest purchasers of mortgages in the secondary market, has been adversely affected by the ongoing housing crisis. The principal and interest on Agency MBS issued by Fannie Mae and Freddie Mac are guaranteed, subject to the conditions of each guarantee, by Fannie Mae and Freddie Mac, respectively, but their guarantee is not backed by the full faith and credit of the U.S. government. Since at least September 2008, it has been apparent that Fannie Mae’s and Freddie Mac’s ability to withstand future credit losses associated with securities held in their investment portfolios, and on which they provide guarantees, depends on the direct support of the federal government.

In September 2008, Fannie Mae and Freddie Mac were placed into the conservatorship of the Federal Housing Finance Agency (“FHFA”), their federal regulator. In addition: (i) the U.S. Department of the Treasury and FHFA entered into preferred stock purchase agreements between the U.S. Department of the Treasury and Fannie Mae and Freddie Mac pursuant to which the U.S. Department of the Treasury stated that it will ensure that each of Fannie Mae and Freddie Mac maintains a positive net worth; (ii) the U.S. Department of the Treasury established a secured lending credit facility available to Fannie Mae, Freddie Mac and the Federal Home Loan Banks; and (iii) the U.S. Department of the Treasury initiated a temporary program to purchase Agency MBS.

Although the federal government has committed capital to Fannie Mae and Freddie Mac, there can be no assurance that this support will continue. The federal government could stop providing credit support to Fannie Mae and Freddie Mac in the future. In addition, there can be no assurance that the credit support provided by the federal government will be adequate for their future needs. If such credit support is withdrawn or is inadequate, Fannie Mae and Freddie Mac could fail to honor their guarantees and other obligations. Any such failure could significantly reduce the value of the Agency MBS and U.S. government agency debt securities in client portfolios.

*Index Risk:* Client portfolios implementing certain of our strategies may invest in structured notes, variable rate ABS and MBS, including adjustable-rate MBS, which are backed by mortgages with variable rates, and certain classes of MBS derivatives, the rate of interest payable under which varies with a designated rate or index. The value of these investments is closely tied to the absolute levels of such rates or indices, or the market’s perception of anticipated changes in those rates or indices. This introduces additional risk factors related to the movements in specific indices or interest rates which may be difficult or impossible to hedge, and which also interact in a complex fashion with prepayment risks.

*Structured Notes:* The structured note market evolved as a way to give investors exposure to indices and risks which were otherwise not available to them. For example, U.S. fund managers restricted to dollar-denominated instruments issued by an agency of the U.S. government, but who sought exposure to the yen, might have purchased an agency structured note, paying, in dollars, a coupon linked by some formula to the dollar/yen exchange rate. The coupon attached to a structured note could depend on a wide variety of indices: U.S. or foreign interest rates, U.S. or foreign swap rates, foreign exchange rates or equity indices. The value of such a structured note is closely linked to the level of the relevant index (or indices). Moreover, the coupon may have an optional or contingent dependence on an index (or indices) increasing the complexity of any related hedge.



*Consumer ABS:* Client portfolios implementing certain of our strategies may invest in a wide variety of consumer ABS, including those backed by auto loans and leases, credit card loans and student loans, and other types of ABS, including those backed by small business loans, rental, commercial, and government fleet leases, certain insurance premium finance loans, equipment loans and leases, mortgage servicing advance loans, aircraft leases, manufactured housing installment sale contracts and installment loan agreements, floorplan loans and franchise loans.

Like MBS, ABS are affected by payments, defaults, and losses on the underlying assets and the recent global economic slowdown may adversely affect the performance and market value of these securities. Rising unemployment, decreases in the values of consumer assets and continued lack of availability of credit may lead to increased default rates across a wide range of different ABS receivables. Such market conditions may be accompanied by decreased consumer demand for the assets underlying such securities, which may weaken collateral coverage and increase the amount of a loss in the event of default.

ABS are also susceptible to prepayment risks. Receivables in ABS may or may not contain prepayment penalties. A reduction in interest rates may increase prepayments on the receivables and in turn a reduction in yield to maturity for ABS holders purchasing such securities at a premium. An increase in interest rates or other factors may slow prepayments which would result in a reduction in yield to maturity for ABS holders purchasing such securities at a discount. Governmental regulation may prohibit, limit, or delay repossession and sale of the assets to recover losses on defaulted assets underlying these ABS. As a result, payments on the related issue of ABS could be delayed and/or reduced. The assets underlying ABS may be obligations of the borrowers thereunder only and not insured or guaranteed by any other person or entity; consequently, distributions on such ABS may depend solely upon the amount and timing of payments and other collections on the related underlying assets.

*Other Structured Finance Securities:* Client portfolios implementing certain of our strategies may invest in structured finance obligations such as Agency MBS and related derivatives which are subject to prepayment, credit, liquidity, market, structural, legal and interest (among other) risks. The performance of a structured finance obligation is affected by a variety of factors, including the level and timing of the payments and recoveries on the underlying assets and the adequacy of the related collateral.

Other income paying securities in which client portfolios implementing certain of our strategies may invest include: senior loans, structured notes, TBA Agency MBS and other delayed delivery securities, repurchase and reverse repurchase agreements and debt

securities issued by real estate investment trusts, as well as securities issued in private placements, including Rule 144A securities.

*Treasuries:* Treasuries, like other fixed income securities, are subject to interest rate risk. Moreover, as Treasuries are typically viewed as having very low risk of default, interest rates paid on such securities can be quite low, and may at or below the rate of inflation. In addition, there is a remote risk that the U.S. government will default on its obligations. Were that to occur, any client portfolio holding material amounts of Treasuries would incur substantial losses.

*Distressed Securities:* Client portfolios implementing certain of our strategies may invest in distressed securities – securities, private claims and obligations of domestic and foreign entities which are experiencing significant financial or business difficulties. Among the risks inherent in such investments is the difficulty of obtaining reliable information as to the true financial condition of their issuers.

Distressed investments may be adversely affected by state and federal laws relating to, among other things, fraudulent conveyances, voidable preferences, lender liability and the bankruptcy court's discretionary power to disallow, subordinate or disenfranchise particular claims.

The market prices of distressed instruments are highly volatile, and the spreads between the bid and asked prices of such instruments are often very wide.

*Investment-Grade and Non- or Lower-Rated Securities:* Client portfolios implementing certain of our strategies may invest in both investment-grade and non- or lower-rated securities (sometimes referred to as “high yield” or “junk” bonds). Analysis of the creditworthiness of non- and lower-rated debt is complex. Non- and lower-rated securities are often more susceptible to real or perceived adverse economic and competitive industry conditions than higher-grade debt. Adverse publicity and investor perceptions, whether or not based on fundamental analysis, may decrease the value and liquidity of non- and lower-rated securities, especially given the typically thinly traded market in such securities.

Rating agencies may fail to make timely or accurate changes to credit ratings to reflect credit events occurring since a security was rated, so that outstanding ratings may not reflect the issuer's current credit standing.

*Principal Only and Interest Only Securities:* Client portfolios implementing certain of our strategies may invest in derivative MBS such as principal only (“PO”) securities, IOs and inverse interest only (“IIO”) MBS which are more exposed to mortgage repayments, and which therefore generally involve a greater amount of risk than traditional debt securities.

Small changes in the repayment rates can significantly impact the cash flow and the market value of these securities.

The risk of faster than anticipated prepayments can significantly impact the cash flow and the market value of IOs and IIOs. The risk of faster than anticipated prepayments generally adversely affects IOs, “super floaters” and premium-priced MBS. The risk of slower than anticipated prepayments generally adversely affects POs and floating-rate securities (subject to interest rate caps, support tranches and discount priced MBS). Faster than anticipated prepayments threaten IOs and IIOs with the risk that the underlying mortgages will be prepaid causing the IOs and IIOs to cease paying any further interest and to become worthless. Slower than anticipated prepayments threaten POs with being outstanding for an unexpectedly long period and at an increasingly below-market interest rate.

IIOs, in addition to the aforementioned risks of traditional IOs, have coupon payments that vary inversely with short-term interest rates. Small rises in short-term interest rates may dramatically reduce or stop mortgage interest payments to these securities and thereby impair or extinguish their value.

*Subordinated Interests and Note Classes:* Client portfolios implementing certain of our strategies may invest in MBS constituted as subordinated interests and note classes, each representing a highly leveraged investment in the underlying reference assets. The market value of these interests or notes are significantly affected by, among other things, changes in the market value of, distributions and prepayments made by, and the prices and interest rates of, the underlying reference assets.

The subordinate classes of RMBS and CMBS are more sensitive to risk of loss and writedowns on the underlying mortgages than senior classes of such securities.

*Risk of a Further Decline in Value of Real Estate Collateral:* The value of the real estate which underlies mortgage loans is subject to market conditions. Changes in the real estate market may adversely affect the value of the collateral and thereby lower the value to be derived from a liquidation. In addition, adverse changes in the real estate market increase the probability of default, as the incentive of the borrower to retain equity in the property declines. Properties securing loans in which our clients’ portfolios have an indirect interest may suffer varying degrees of financial distress or may be located in economically distressed areas.

*Derivatives:* Client portfolios implementing certain of our strategies may use derivative financial instruments, including, without limitation, warrants, options, swaps, notional principal contracts, contracts for differences, forward contracts, futures contracts and options thereon, and may use derivative techniques for hedging and for other trading

purposes. The use of derivative instruments involves a variety of material risks, including the extremely high degree of leverage often embedded in such instruments and the possibility of counterparty non-performance as well as of material and prolonged deviations between the actual and the theoretical value of a derivative, due to, e.g., nonconformance to anticipated or historical correlation patterns. In addition, the markets for certain derivatives are frequently characterized by limited liquidity, which can make it difficult as well as costly to these portfolios to close out positions in order either to realize gains or to limit losses.

Some of the derivatives that may be traded by our client portfolios may be principal-to-principal or over-the-counter (“OTC”) contracts between the applicable client and third parties entered into privately, rather than on an established exchange. As a result, the client would not be afforded the regulatory protections of an exchange or its clearinghouse, or of a government regulator that oversees the exchange or clearinghouse, if a counterparty fails to perform. In privately negotiated transactions, the risk of the negotiated price deviating materially from fair value is substantial, particularly when there is no active market available from which to derive benchmark prices.

Many derivatives are valued on the basis of dealers’ pricing of these instruments. However, the price at which dealers value a particular derivative and the price which the same dealers would actually be willing to pay for such derivative should Declaration wish or be forced to sell such position on behalf of a client portfolio may be materially different. Such differences can result in an overstatement of the portfolio’s net asset value and may materially adversely affect the portfolio in situations in which the portfolio is required to sell derivative instruments. The client portfolio’s use of derivatives and other techniques (such as short sales) for hedging purposes involves certain additional risks, including: (i) dependence on the ability to predict movements in the price of the asset being hedged; (ii) imperfect correlation between movements in the asset on which the derivative is based and movements in the asset being hedged; and (iii) possible impediments to effective portfolio management or the ability to meet short-term obligations because of the percentage of the portfolio’s assets segregated to secure its obligations under derivatives contracts. In addition, by hedging a particular position, a client portfolio may limit any potential gain from an increase in value of such position.

*Credit Default Swap Agreements:* The “buyer” in a credit default contract is obligated to pay the “seller” a periodic stream of payments over the term of the contract in return for a contingent payment upon the occurrence of a credit event with respect to an underlying reference obligation. Generally, a credit event means bankruptcy, failure to pay or obligation acceleration. If a credit event occurs, the seller typically must pay the contingent payment to the buyer, which is typically the “par value” (full notional value) of the

reference obligation. The contingent payment may be a cash settlement or physical delivery of the reference obligation in return for payment of the face amount of the obligation. A given client portfolio implementing certain of our strategies may be either the buyer or seller in the transaction. If the client is a buyer and no credit event occurs, it may lose its investment (or premium) and recover nothing. However, if a credit event occurs, the buyer typically receives full notional value for a reference obligation that may have little or no value. As a seller, the client receives a fixed rate of income throughout the term of the contract, which typically is between one month and five years, provided that no credit event occurs. If a credit event occurs, the seller may pay the buyer the full notional value of the reference obligations.

Credit default swaps involve greater risks than if a client had invested in the reference obligation directly. In addition to general market risks, credit default swaps are subject to liquidity risk and credit risk. A buyer also may lose its investment and recover nothing should no credit event occur. If a credit event were to occur, the value of the reference obligation received by the seller, coupled with the periodic payments previously received, may be less than the full notional value it pays to the buyer, resulting in a loss of value to the client.

Given the recent sharp increases in volume of credit derivatives trading in the market, settlement of such contracts may also be delayed beyond the time frame originally anticipated by counterparties. Such delays may adversely impact a client's ability to otherwise productively deploy any capital that is committed with respect to such contracts.

*Futures Contracts:* Client portfolios implementing certain of our strategies may trade futures contracts, usually for hedging purposes.

Trading in futures contracts is a specialized activity that may entail greater than ordinary investment risks. Futures markets are volatile and are influenced by factors, such as changing supply and demand relationships, governmental programs and policies, national and international political and economic events and changes in interest rates. In addition, because of the low margin deposit normally required in futures trading, a high degree of leverage is typical of a futures trading account. Consequently, a relatively small price movement in a futures contract may result in substantial losses to the trader. Futures trading also may be illiquid because certain futures exchanges do not permit trading in a particular type of future beyond certain set limits. If prices fluctuate during a single day's trading beyond those limits, which conditions have in the past sometimes lasted for several days in certain contracts, a client portfolio could be prevented from promptly liquidating unfavorable positions and thus be subject to substantial losses.

In addition, under the Commodity Exchange Act, futures commission merchants are required to maintain customers' assets in a segregated account. If a client portfolio engages in futures and options contract trading and a futures commission merchant with which it maintains accounts fail to so segregate its assets or is not required to do so, the portfolio will be subject to a risk of loss in the event of the bankruptcy of that futures commission merchant. Even when a client's funds are properly segregated, it might be able to recover only a pro rata share of its property pursuant to a distribution of a bankrupt futures commission merchant's assets.

*Over-the-Counter Derivatives and Enhanced Regulation:* Client portfolios implementing certain of our strategies may permit the use of over-the-counter ("OTC") derivatives, such as credit default swaps and interest rate swaps.

The Reform Act requires that a substantial portion of OTC derivatives must be executed in regulated markets and submitted for clearing to regulated clearinghouses. Among other things, new margin and other requirements may increase costs for market participants.

The SEC and the CFTC may also require a substantial portion of derivative transactions that are currently executed on a bi-lateral basis in the OTC markets to be executed through a regulated securities, futures, or swap exchange or execution facility. Such requirements may make it more difficult and costly for investors, including Declaration's clients, to enter into highly tailored or customized transactions. They may also render certain strategies in which Declaration might otherwise engage for its clients' portfolios impossible or uneconomical.

The overall impact of the Reform Act on investors is highly uncertain and it is unclear how the OTC derivatives markets will adapt to this new regulatory regime.

Although the Reform Act requires many OTC derivative transactions previously entered into on a principal-to-principal basis to be submitted for clearing by a regulated clearinghouse, certain of the derivatives that may be traded by Declaration's clients' portfolios may remain principal-to-principal or OTC contracts between them and third parties entered into privately. The risk of counterparty nonperformance can be significant in the case of these OTC instruments, and "bid-ask" spreads may be unusually wide in these heretofore substantially unregulated markets. While the Reform Act is intended in part to reduce these risks, its success (or failure) in this respect may not be evident for some time after the Reform Act is fully implemented, a process that may take several years.

To the extent not mitigated, if at all, by implementation of the Reform Act, the risks posed by the use of derivative instruments and trading techniques, which can be extremely complex, including: (1) credit risks (the exposure to the possibility of loss resulting from a

counterparty's failure to meet its financial obligations); (2) market risk (adverse movements in the price of a financial asset or commodity); (3) legal risks (the characterization of a transaction or a party's legal capacity to enter into it could render the financial contract unenforceable, and the insolvency or bankruptcy of a counterparty could preempt otherwise enforceable contract rights); (4) operational risk (inadequate controls, deficient procedures, human error, system failure or fraud); (5) documentation risk (exposure to losses resulting from inadequate documentation); (6) liquidity risk (exposure to losses created by inability to prematurely terminate the derivative); (7) systemic risk (the risk that financial difficulties in one institution or a major market disruption will cause uncontrollable financial harm to the financial system); (8) concentration risk (exposure to losses from the concentration of closely related risks such as exposure to a particular industry or exposure linked to a particular entity); and (9) settlement risk (the risk faced when one party to a transaction has performed its obligations under a contract but has not yet received value from its counterparty).

#### Certain Risks Associated With Trading, Investing Techniques and Leverage.

*Model Risk:* Declaration may select the securities to be purchased for a given client portfolio in part on the basis of quantitative valuation models that it has developed, as well as valuation models developed by third parties and made available to Declaration. Any one or all of these assumptions, whether or not supported by past experience, could prove to be incorrect. The outputs of models may differ substantially from the reality of the markets, resulting in major losses.

*Forecasts:* The models used by Declaration typically require market forecasts — for example, changes in home prices, expected market volatility, interest-rate changes, default and recovery patterns or prepayment schedules. There can be no assurance that Declaration will correctly forecast such factors, and, to the extent that it does not do so, the data incorporated into Declaration's models will be incorrect and the calculations generated by such models inaccurate.

*Importance of Market Judgment:* Although the Declaration uses quantitative valuation models in evaluating the economic components of certain prospective trades, Declaration's quantitative strategies are not wholly systematic; the market judgment and discretion of Declaration's personnel are fundamental to the implementation of these strategies. The greater the importance of subjective factors, the more unpredictable a trading strategy becomes.

*Operational and Human Error:* The success of Declaration's strategies depends in part upon the accurate communication of precise trading instructions and ongoing position evaluations. In addition, many of Declaration's client portfolios' positions require active,

ongoing management and dynamic adjustments. There is the possibility that, through human error, oversight or operational weaknesses, mistakes could occur in trade execution process and lead to significant trading losses.

*Hedging:* Declaration may, but under client investment guidelines typically is not required to, use a variety of financial instruments, such as swaps, options, caps and floors, futures, and forward contracts, for hedging purposes. Hedging involves special risks including the possible default by the other party to the transaction, illiquidity, and, to the extent Declaration's assessment of certain market movements is incorrect, the risk that the use of hedging could result in losses greater than if hedging had not been used. Nonetheless, with respect to certain investment positions, a client portfolio may not be sufficiently hedged against market fluctuations, in which case an investment position could result in a loss greater than if the portfolio had been sufficiently hedged with respect to such position. Moreover, it should be noted that client portfolios are always exposed to certain risks that either intentionally are not hedged or that cannot be fully hedged.

*Projections:* Client portfolios may make investments relying upon projections developed by Declaration concerning a given credit instrument's future performance and cash flow. Projections are inherently uncertain and subject to factors beyond the control of Declaration and the issuer in question. The inaccuracy of certain assumptions, the failure to satisfy certain financial requirements and the occurrence of unforeseen events could impair the ability of an investment to realize projected values and/or cash flow.

*Cross-Collateralization:* To the extent that any strategy uses traditional forms of leverage, the leverage providers (lenders) will in all likelihood have recourse to all of the assets of the portfolio using the leveraged strategy.

*Leverage; Extension Risk:* Certain of Declaration's strategies may use leverage, as described above. The more leverage that is employed by a given client portfolio, the more likely a substantial change will occur in the value of the portfolio. In addition, borrowing results in substantial interest charges to client portfolios that use leverage.

To the extent that debt securities financed with term borrowing do not fully mature on or before the financing's maturity date, a client portfolio may need to sell some or all of its assets or seek alternative financing. If sales proceeds are insufficient to repay such financing then such client may lose all or part of its capital investment in the portfolio, be obliged to repay the financing from other sources, or both. Alternatively, any such alternative financing may be on substantially different and less favorable terms than the terms of the original financing, which could also lower the yield of the portfolio.



*Repurchase Agreements:* In the event of a bankruptcy or other default of a transferor of securities in a repurchase agreement, a client portfolio using such agreement as transferee could experience both delays in liquidating the underlying securities and losses, including: (a) a possible decline in the value of the collateral during the period in which enforcement of the client's rights is sought; (b) possible subnormal levels of income and lack of access to income during this period; and (c) expenses of enforcing such rights. In the case of default by the transferee of securities in a repurchase agreement, a client portfolio as transferor runs the risk that the transferee may not deliver the securities when required.

*"Fraudulent Conveyance" Considerations:* Various laws enacted for the protection of creditors may apply to certain investments that are debt obligations, although the existence and applicability of such laws vary from jurisdiction to jurisdiction. For example, if a court were to find that the borrower did not receive fair consideration or reasonably equivalent value for incurring indebtedness evidenced by an investment and the grant of any security interest or other lien securing such investment, and, after giving effect to such indebtedness, the borrower (i) was insolvent, (ii) was engaged in a business for which the assets remaining in such borrower constituted unreasonably small capital or (iii) intended to incur or believed that it would incur, debts beyond its ability to pay such debts as they mature, such court could invalidate such indebtedness and such security interest or other lien as "fraudulent conveyances," subordinate such indebtedness to existing or future creditors of the borrower or recover amounts previously paid by the borrower (including to a Declaration client) in satisfaction of such indebtedness as well as all proceeds of such security interest or other lien previously applied in satisfaction of such indebtedness. If an issuer in which a client portfolio has an investment becomes insolvent, any payment made on such investment may be subject to avoidance as a "preference" if made within a certain period of time (which may be as long as one year) before insolvency.

In general, if payments on an investment are voidable, whether as fraudulent conveyances or preferences, such payments can be recaptured either from the initial recipient or from subsequent transferees of such payments. Fraudulent conveyances as well as preferences are subject to recall in spite of the good faith of both the borrower and the lender.

## **Item 9 – Disciplinary Information**

As a registered investment adviser, Declaration is required to disclose all material facts regarding any legal or disciplinary event that is material to a client's or prospective client's evaluation of Declaration or the integrity of its management.

On May 23, 2012, plaintiffs Loreley Financing (Jersey) No. 6 Limited and Loreley Financing (Jersey) No. 28 Limited filed a civil complaint against Declaration and other defendants in a New York state court. In their complaint, the plaintiffs assert various fraud claims against Declaration arising from its role as a collateral manager to Draco 2007-1, Ltd. Draco was the vehicle for a US\$2 billion 'synthetic' collateralized debt obligation ("CDO") transaction which in 2007 issued several tranches of rated notes and a single class of equity in the form of subordinated notes. According to the complaint, the plaintiffs invested \$60 million in rated notes issued by Draco, which are now virtually worthless as a result of Draco's experiencing an event of default in 2008 and defaults in its portfolio. The plaintiffs seek compensatory and punitive damages and other relief from the defendants.

The plaintiffs allege that they invested in Draco in reliance on false claims about Declaration's role as collateral manager. More specifically, the plaintiffs allege that Declaration allowed an unaffiliated investor, Magnetar Capital, to select the assets of Draco in violation of Declaration's duties and without providing appropriate disclosure of Magnetar Capital's role to the other Draco investors.

Declaration intends to vigorously defend the plaintiffs' meritless complaint on several grounds, including without limitation that it performed its responsibilities as Draco's collateral manager independently and selected Draco's portfolio of reference obligations using its own judgment. The collateral in Draco that Declaration selected complied with the eligibility criteria established by Draco's governing documents and was fully disclosed to investors in Draco's offering memorandum and other documents. Declaration believes that losses incurred by the plaintiffs resulted from the unprecedented collapse of the US housing market and the investment decisions of IKB Deutsche Industriebank AG and IKB Credit Asset Management GmbH, the plaintiffs' investment advisor.

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

Declaration has arrangements that are material to its advisory business or its clients with the following types of "related persons" (which term includes officers, directors, employees, and persons controlling, controlled by or under common control with Declaration): a broker dealer, investment companies and other pooled investment vehicles, investment advisers and insurance companies. These related persons and the relationships and arrangements involving Declaration are as follows:

Declaration manages fixed income assets (in one case as sub-adviser to SEC-registered investment adviser Hancock Capital Investment Management, LLC) owned by various other

direct or indirect wholly owned subsidiaries of Manulife Financial Corporation ("MFC"), including John Hancock Life Insurance Company (U.S.A.) (general account and insurance company separate accounts) and John Hancock Life & Health Insurance Company. Declaration also manages several fixed income portfolios for the John Hancock Variable Insurance Trust (a registered investment company which funds variable life insurance policies and variable annuity contracts issued by certain insurance company affiliates) and John Hancock Funds II (a mutual fund registered investment company), as sub-adviser to SEC-registered investment adviser John Hancock Investment Management Services, LLC.

All investment management arrangements with related persons are conducted on an arms-length basis so as to neither advantage nor disadvantage Declaration's other clients or the above-mentioned related persons.

John Hancock Life Insurance Company (U.S.A.) may be a significant investor in funds managed by Declaration.

Declaration and its affiliates may have common directors and common officers and may share certain administrative and/or back office functions. More specifically, Declaration has harmonized its operations systems (back & mid office) with those of Manulife Asset Management (US) LLC ("Manulife AM (US)") in Boston switched over to Manulife AM (US)'s systems in early April. Also Declaration is using Manulife AM (US) to provide various services to it. These include investment management support such as trade execution for certain instruments and shared investment research; investment operations services such as account records maintenance and reconciliation, processing and settling trades with custodians and providing asset valuations; general corporate services such as office space and facilities, administrative support, information technology, vendor sourcing and corporate accounting; and other related services such as compliance staff support, investment guideline compliance monitoring and reporting, and support for client and regulatory reporting. Declaration shares office space in Boston with Manulife AM (US) and certain of Declaration's officers may also serve as officers of Manulife AM (US). Some employees of Manulife AM (US) are registered representatives of John Hancock Distributors LLC, and in this capacity may offer and sell to investors interests in funds managed by Declaration.

Declaration may serve as a general partner of a private fund or SEC-registered fund organized as a limited partnership, or as a manager of such a fund organized as a limited liability company. Sometimes clients of Declaration are offered investments in these funds by employees of Manulife AM (US) that are registered representatives of John Hancock Distributors LLC. Typically such funds invest primarily in fixed-income instruments.

Related persons of Declaration are general partners of certain limited partnerships and managers of certain limited liability companies. Particular limited partnerships and limited liability companies within this group may invest directly or indirectly in debt and equity securities, venture capital funds or various types of real estate, among other things. Clients of Declaration may have invested in certain of these limited partnerships and limited liability companies, but not as a result of solicitation efforts or investment management decisions by Declaration.

Neither Declaration nor a related person has any arrangements where it is paid cash by or receives some economic benefit (including commissions, equipment or non-research services) from a non-client in connection with giving advice to clients.

### **Item 11 – Code of Ethics**

Declaration has adopted a Code of Ethics for all covered persons of the firm describing its standards of business conduct and its fiduciary duty to its clients. The Code of Ethics sets forth certain standards of conduct including, among other things, a prohibition on insider trading, and personal securities trading procedures and reporting. All supervised persons at Declaration must acknowledge the terms of the Code of Ethics annually. The Code is designed to assure that the personal securities transactions, activities and interests of the directors, officers and employees of Declaration will not interfere with (i) making decisions in the best interest of clients and (ii) implementing such decisions while, at the same time, allowing employees to invest for their own accounts. Under the Code certain classes of securities have been designated as exempt transactions, based upon a determination that these would materially not interfere with the best interest of Declaration's clients. In addition, the Code requires pre-clearance of many transactions. Employee trading is regularly monitored under the Code to, among other things, prevent conflicts of interest between Declaration and its clients. All directors and employees are required to submit initial and annual disclosures of personal holdings and must file quarterly individual personal securities transaction reports. Certain covered persons of the firm must also comply with the Code of Ethics of Manulife AM (US)– since these persons have or may have access to its securities trading information.

Item 12 describes Declaration's trade aggregation and allocation policies.

Declaration's clients and prospective clients may request a copy of the firm's Code of Ethics by contacting the Chief Compliance Officer.

It is Declaration's policy that the firm will not cross trades between client portfolios. While Declaration has affiliated entities that are SEC-registered broker-dealers, it is Declaration's policy to not engage in any securities transactions with such affiliates.

## **Item 12 – Brokerage Practices**

Declaration's advisory agreements involving continuous investment advice typically grant it discretion to determine the particular securities as well as the amounts, prices and timing of all purchases and sales of securities for the particular portfolio and the brokers or dealers to be used and appropriate commission rates, markups or markdowns, subject to the written investment objectives and guidelines developed by or with each client.

Fixed income securities generally are purchased from a market maker acting as principal on a net basis with no brokerage commission paid by the client. Such securities also may be purchased in public offerings from underwriters at prices which include underwriting commissions and fees. Almost all fixed income trades in the secondary market are executed on a competitive basis. In general, Declaration's decisions regarding dealers and brokers are based on the full range and quality of services including, among other things, where best execution for a particular security is obtainable, discount rate, financial responsibility and responsiveness. For extremely liquid securities, such as Treasuries and certain MBS, such considerations are dominant. From time to time, special circumstances may warrant a recommendation that also considers structuring abilities, product development or special services relating to the securities to be purchased. For less liquid securities, such as CMOs and certain derivative products, these additional considerations may be dominant. Product development may include new ideas or new structures tailored to a particular market niche. Special services may include structuring particular transactions or investments or providing data with respect to such securities. Each dealer and broker with whom Declaration conducts transactions on behalf of its clients must be on Declaration's Approved Broker List.

For certain of its private funds, Declaration may select a prime broker through which all of such fund's transactions are placed.

Certain dealers and brokers may provide Declaration with research or analytical data, which they make generally available to a broad array of potential investors. Such data is not taken into consideration by Declaration in selecting dealers and brokers. Declaration believes that any such data would be made available to Declaration whether or not trades are placed through a given dealer or broker. Declaration does not engage in any soft dollar arrangements.

*Allocation.* We generally expect that our accounts in the same strategy will participate in an investment opportunity at the same time and all accounts will participate in an equitable manner. We expect that any allocation of investment opportunities will be performed on a basis that we believe will be fair and equitable and will use all reasonable efforts to ensure that no participating entity or account receives preferential treatment over any other.

When an investment opportunity is suitable for more than one investment account, the opportunity will generally be allocated pro rata among such accounts based on cash availability, account restrictions, regulatory requirements and other relevant factors. There can be no assurances that the allocation of investment opportunities will not be of advantage to one client over another.

Declaration manages numerous portfolios, some with similar or identical investment guidelines and some with different guidelines, which may trade in the same securities. Decisions with respect to purchases and sales of securities may be similar or different from portfolio to portfolio. Declaration may but need not purchase or sell the same securities at the same time for various portfolios, and may in fact be selling a security for one portfolio at the same time as it is purchasing the same security for another portfolio. Declaration has no obligation to acquire with respect to any client's portfolio a position in any investment that it may have acquired for the portfolio of another client. In making its investment decisions for each portfolio, Declaration uses its best judgment on behalf of each client taking into portfolio the applicable investment guidelines, the cash position of the portfolio and other factors.

In addition to third-party client portfolios, Declaration manages portfolios for affiliates and portfolios that may combine affiliated, employee and/or third party funds. Subject to its fiduciary obligations to its unaffiliated clients, Declaration considers it appropriate that portfolios of affiliates may participate in transactions in the same securities and at the same or approximately the same time as portfolios of unaffiliated clients. It is Declaration's policy not to intentionally favor the portfolio of any affiliate over the portfolio of any unaffiliated client. It is also Declaration's policy not to intentionally disfavor any portfolio of an affiliate or any third party client portfolio. Securities transactions entered into for portfolios of affiliates are not necessarily consistent with transactions entered into for the portfolios of unaffiliated clients.

*Aggregation.* Because investment decisions often affect more than one client, we frequently will attempt to acquire or dispose of the same security for more than one client at the same time. Declaration, to the extent permitted by applicable law, regulations and advisory contracts, may aggregate purchases and sales of securities on behalf of its various

clients for which it has discretion, provided that in our opinion, all client accounts are treated equitably and fairly and that block trading will result in a more favorable overall execution. Trades will not be combined when a client has directed transactions to a particular broker-dealer or when we determine that combined orders would not be efficient or practical.

When appropriate, Declaration will allocate such block orders at the average price obtained or according to a system that we consider to be fair to all clients over time. Generally speaking, such allocations are made on the basis of proportional capital under management in the respective client accounts.

Declaration and its affiliates may have economic interests in or other relationships with issuers in whose obligations or securities Declaration's clients may invest. In particular, Declaration and its affiliates often make or hold for client portfolios an investment in an issuer's securities that may be *pari passu*, senior or junior in ranking to an investment in such issuer's securities made or held by other client portfolios. Members, security holders, officers, directors, agents or employees of Declaration and its affiliates may serve on boards of directors or otherwise have ongoing relationships with such issuers. Such ownership and other relationships may result in securities laws restrictions on transactions in such securities by client portfolios and otherwise create conflicts of interest affecting Declaration in its management of such portfolios.

Although its officers and employees devote as much time to each client portfolio as Declaration deems appropriate, the officers and employees may have conflicts of interest in allocating their time and services among Declaration's client portfolios.

### **Item 13 – Review of Accounts**

The frequency, level and factors that trigger reviews of client portfolios depend on the arrangements negotiated with each client based on its portfolio and its monitoring capabilities and the nature of the services to be rendered to that client. In general, quarterly reviews are required by all clients. However, some clients may require monthly reviews. Reviews may relate to an entire portfolio, portions or specific securities. In general, quarterly reviews are presented in written form and periodically accompanied by an oral presentation. The manager responsible for the particular portfolio generally is the primary reviewer, although technical personnel and other management may also participate.

Certain senior professionals of Declaration are involved from time to time in portfolio and account reviews. The following are primarily responsible for conducting and supervising reviews: William P. Callan, Jr., President, Michael E. Stern, Executive Vice President, Peter M. Farley, Senior Vice President, Lester L. Guillard III, Senior Vice President and Bond H. Griffin, Senior Vice President. In general, each reviewer is responsible for approximately 1-20 accounts.

Instructions relating to performance or reviews, including timing, level and scope, are determined by the above individuals taking into account the needs and contractual arrangements of each client. Reviews generally include comprehensive evaluations of performance to date, current policies and strategies, proposed changes in investment strategy and policies, and market changes.

The format, nature and frequency of reports to clients are dictated by the specific arrangements negotiated with each client. Summary reports are typically produced monthly with more comprehensive reports provided each quarter. Certain clients may require weekly reports, particularly with respect to certain types of portfolio activity.

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

Declaration has no arrangements whereby it receives an economic benefit from a third party for providing investment advice or other advisory services to its clients.

Declaration may compensate Manulife AM (US) for client referrals. With respect to a given client referred to Declaration by Manulife AM (US), the latter would receive 35% of management fees paid to Declaration in the first 12 months following engagement and 5% of such fees paid in each of the following two 12-month periods.

#### **Item 15 – Custody**

Declaration does not maintain custody of client funds or securities. All of Declaration's clients' assets are maintained with third-party custodial institutions that are not affiliated with Declaration. Declaration's clients choose their custodians in negotiated arrangements to which Declaration is not a party, except for certain of Declaration's private fund clients the custodians of which have been chosen by Declaration. These institutions are large well-known entities and act in an independent capacity.



Clients should receive at least quarterly statements from the bank or other qualified custodian that holds and maintains client's investment assets, or more frequently depending on the arrangement negotiated with the custodian.

Declaration urges clients to carefully review such statements and compare such official custodial records to the reports that we may provide to you. Our reports may vary from custodial statements based on accounting procedures, reporting dates, or valuation methodologies.

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

Declaration carefully reviews proposed advisory agreements and works with its clients to develop appropriate written investment guidelines before it assumes investment discretion.

Declaration's advisory agreements involving continuous investment advice typically grant it discretion to determine the particular securities as well as the amounts, prices and timing of all purchases and sales of securities for the particular portfolio and the brokers or dealers to be used and appropriate commission rates, markups or markdowns, subject to the written investment objectives and guidelines developed by or with each client.

When selecting securities and determining amounts, Declaration observes the investment policies, limitations and restrictions of its clients. For registered investment companies, Declaration's authority to trade securities may also be limited by applicable federal securities and tax laws.

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

Declaration is a fixed income manager and accordingly is seldom, if ever, called upon to vote equity securities on our clients' behalf. In the event Declaration were granted the discretion to vote proxies for a client's portfolio and an occasion arose where an equity security needed to be voted, we would follow our proxy voting policy in carrying out our responsibilities to that client.

Clients may obtain a copy of Declaration's proxy voting policy and procedures upon request. Clients may also obtain information from Declaration about how Declaration has voted any proxies on their behalf.

## **Item 18 – Financial Information**

Registered investment advisers are required in this Item to provide you with certain financial information or disclosures about Declaration’s financial condition. Declaration has no financial condition that is reasonably likely to impair its ability to meet its contractual commitments to clients.