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This brochure provides information about the qualifications and business practices of Cutwater Asset Management Corp. If you have any questions about the contents of this brochure, please contact us at 1-866-766-3030 or [info@cutwater.com](mailto:info@cutwater.com). The information in this brochure has not been approved or verified by the United States Securities and Exchange Commission or by any state securities authority.

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

Cutwater Asset Management Corp. ("CAMC") is registered with the SEC as an investment adviser. CAMC's registration in no way implies a certain level of skill or training.

**Item 2: Material Changes**

There are no material changes to report.

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#### **Item 4: Advisory Business**

CAMC provides fixed income investment advisory services to a variety of investors. Established in 1993, CAMC was known as MBIA Capital Management Corp. from its inception until February 8, 2010. CAMC and its investment adviser affiliates engage in business under the name Cutwater Asset Management (“Cutwater”). The business units of Cutwater are organized under a parent holding company called Cutwater Holdings, LLC which is itself a wholly-owned subsidiary of MBIA Inc., a New York Stock Exchange listed company which also has certain insurance related subsidiaries. Warburg Pincus Private Equity X, L.P. and certain of its affiliates are beneficial owners of approximately 30% of the outstanding shares of MBIA Inc.’s common stock.

CAMC’s advisory services are offered in two major product lines, traditional and structured. Within the traditional product line, CAMC offers cash management and discretionary and non-discretionary asset management to governments, insurance companies (including MBIA’s insurance subsidiaries), corporations, pension funds, unions, endowments, foundations and investment companies in both pooled and separate account formats. Within the structured product line, CAMC manages asset/liability programs, conduits, collateralized debt obligations (“CDOs”) and other funding vehicles for banks, insurance companies, and program trustees.

As described above, CAMC offers a variety of specialized product lines. We are able to determine the particular investment goals and objectives through direct personal contact with clients and to offer clients the investment products or strategies which we believe best fit their investment objectives. Accounts are managed pursuant to investment guidelines and restrictions provided by clients to establish parameters for account management. Individual clients may also impose specific restrictions limiting CAMC’s ability to invest in certain securities or types of securities.

CAMC can create individualized portfolio strategies based on a number of factors both internal and external to the client. These factors can include a client’s unique cash flow needs, and its regulatory and policy requirements. CAMC works with each client to develop an investment framework based on the client’s risk tolerance, investment policy and current market conditions.

As of December 31, 2011, CAMC provided investment advisory services to a total of 51 accounts with total assets under management (AUM) of \$6.343 billion. This total included 32 discretionary accounts with total AUM of \$885 million and 19 non-discretionary accounts with total assets of \$5.457 billion.

## **Item 5: Fees and Compensation**

CAMC is compensated for its investment advisory services through fees which are primarily calculated as a percentage of assets under management in client accounts. All fees are subject to negotiation and are dependent on account services provided and size of portfolio. CAMC has fee schedules that apply to accounts associated with various product lines. CAMC charges fees which are calculated as a percentage of assets under management in client accounts. For certain of CAMC's clients, the fee calculation may be based upon the average or ending market value of client account assets on either a monthly or quarterly basis. In other cases, the average historical cost value will serve as the basis for the fee calculation. In each case, client account assets are multiplied by a basis point fee, the amount of which varies, depending on the contractual relationship with a particular client. The majority of clients are billed quarterly in arrears (and occasionally, monthly in arrears).

CAMC maintains a number of separate fee schedules, each of which corresponds to particular investment strategies offered by CAMC. The following are sample fee schedules for our most frequently employed client investment strategies

The fee schedule for client accounts managed pursuant to CAMC's Core Fixed Income ("Core") investment strategy, part of our traditional product line, is as follows: 0.30% on the first \$25 million and 0.20% in excess of \$25 million.

The fee schedule for client accounts managed pursuant to CAMC's High Yield Fixed Income strategy, part of our traditional product line, is as follows: 0.50% on the first \$25million, 0.40% on the next \$25million and 0.30% in excess of \$25million.

The fee schedule for client accounts managed pursuant to CAMC's Short Term Fixed Income ("Short Duration") strategy, part of our traditional product line, is as follows: 0.25% on the first \$25million, 0.20% on the next \$25million and 0.15% in excess of \$25million.

Generally, CAMC bills clients for fees incurred. All fees are subject to negotiation and are dependent on account services provided and size of portfolio. CAMC bills clients and/or deducts fees on a monthly or quarterly basis subject to the contractual agreement.

Generally all expenses and fees are included in investment advisory fees charged to clients by CAMC. In most cases clients separately pay custodian fees, although in a limited number of cases, CAMC will pay the fees on behalf of the client. CAMC clients do not incur separate brokerage or other transaction costs because transactions in fixed income securities for client accounts are conducted on a net basis without commissions.

**Item 6: *Performance Based Fees* and Side-By-Side Management**

CAMC does not charge performance based fees on client accounts.

**Item 7: Types of Clients**

CAMC clients include: corporations, financial institutions, insurance companies, unions, Taft-Hartley funds, municipalities, school districts, other local governmental units, endowments, and foundations. CAMC currently does not impose a minimum account size.

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

### **METHODS OF ANALYSIS**

CAMC employs the following methods of analysis in the management of client portfolios: sector allocation, security selection, yield curve positioning, and maturity/duration management.

Sector allocation is determined through a mix of quantitative and qualitative techniques. We track historical yield spreads between and among sectors with different risk characteristics over long time periods. We use “bottom-up” fundamental research as a means for security selection. In the area of corporate credit, our analysts use a combination of financial statement analysis, analysis of developing industry trends, discussions with company management, and quantitative models to establish the creditworthiness of issuers in their sectors. In the structured products area, CAMC uses loan level modeling, and proprietary cash flow analysis to establish the creditworthiness of the unique structures that characterize those sectors.

To establish yield-curve positioning we analyze yield pick-ups along the curve per unit of duration as well as key-rate durations of a specific managed portfolio relative to its index.

In managing portfolio maturity/duration we consider factors such as interest rate moves and yield curve shifts which influence the returns of a fixed income portfolio. We also consider factors that influence the economy and interest rates, such as monetary policy, fiscal policy, inflation, productivity, and other economic indicators.

### **INVESTMENT STRATEGIES**

CAMC relies on two primary categories of investment strategies- traditional strategies and structured strategies. Traditional strategies include: Core Fixed Income, Core Plus Fixed Income, Money Market, Short Duration, Intermediate Duration, Long Duration, High Yield, Enhanced Cash Management, and Insurance and Tax Efficient. Structured investment strategies include: Liability Driven Investing (LDI), Alternative Products, and Collateralized Debt Obligations (CDO) management. Described below are the principal investment strategies we use in formulating investment advice and managing assets.

#### ***TRADITIONAL STRATEGIES***

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

The Core Fixed Income (“Core”) investment strategy seeks total return with a combination of income and capital appreciation. This strategy consists of allocations to the U.S. investment grade bond market. Core may invest up to 10% in out-of-benchmark sectors which may include U.S. Treasury Inflation Protected Securities (TIPS), high yield and emerging markets. Interest rate exposure is generally managed within a +/- 20% range benchmark duration.



### ***Core Plus Fixed Income***

The Core Plus Fixed Income (“Core Plus”) investment strategy has the same objective as Core, but is distinct in that interest rate exposure is generally managed within a +/- 25% range benchmark duration. Core Plus may invest up to 25% in out-of-benchmark sectors which may include U.S. TIPS, high yield and emerging markets.

### ***Money Market***

The Money Market strategies invest in high quality, short-term fixed income securities. These strategies generate current income while maintaining liquidity and preserving capital. The weighted average maturity should not exceed 60 days. CAMC manages these strategies consistent with the diversification, ratings and maturity guidelines of SEC Rule 2a-7. Assets managed in this style are designed to provide investors daily liquidity at a \$1.00 constant net asset value (NAV) per share. Typical sectors used in the management of these styles can include U.S. government securities, repurchase agreements, commercial paper, short term corporate notes and other money market instruments.

Through participation in Local Government Investment Pools (LGIPs) this strategy is designed to meet the short-term cash management needs of local governments. LGIPs involve pooling funds of many local government entities to provide them the opportunity to obtain safety of principal, daily liquidity and competitive rates.

### ***Short Duration***

The Short Duration strategy seeks to provide a stable source of income, with long-term capital appreciation as a secondary objective. This strategy entails active management of duration, sector allocation and security selection. Maximum maturities for holdings are typically limited to 5 to 7 years. Investments for this strategy consist of high quality fixed income securities and seek to maintain a portfolio average duration within +/- 20% of the benchmark.

### ***Intermediate Duration***

The Intermediate Duration strategy seeks to enhance current income and long-term capital appreciation with maximum maturities typically limited to 10 years. The strategy provides active management of duration, sector allocation and security selection. Exposures generally consist of actively managed allocations to the U.S. investment grade bond market. Interest rate exposure is actively managed, generally within a +/- 20% range of benchmark duration.

### ***Long Duration***

The Long Duration strategy seeks to maximize risk-adjusted total return with a combination of income and capital appreciation through investment in a diversified portfolio of investment-grade fixed income securities. Composite guidelines allow for out of benchmark allocations. The managed duration for this strategy is generally within +/- 20% of benchmark duration.

### ***High Yield***

The High Yield strategy focuses on generation of high current income and long-term capital growth through investing primarily in higher yielding, non-investment grade U.S. corporate debt securities. Portfolios following this investment strategy typically invest at least 80% of holdings in securities rated below BBB-.

### ***Enhanced Cash Management***

The Enhanced Cash Strategy maintains money market-like liquidity combined with allocations to the non-traditional money market sectors. Non-traditional sectors include, but are not limited to, fixed-rate investments maturing greater than 13 months, investments containing embedded options, and investment grade corporate credit. Client accounts may be limited by sector or maturity guidelines.

### ***Insurance and Tax Efficient***

These are customized investment strategies designed to meet specialized goals and requirements of particular clients, as well as liabilities, specific to the client's business objectives. These strategies seek to balance principal protection with income enhancement and portfolio liquidity. These strategies involve the creation of asset portfolios that meet all client directed and industry guidelines.

## ***STRUCTURED STRATEGIES***

### ***Liability Driven Investing***

This strategy seeks to manage client assets to permit a portfolio to meet or exceed expected liabilities through the use of sophisticated, proprietary models that can be tailored to our clients' unique circumstances. These models seek to optimize the investment profile to meet liquidity demands, immunize liabilities, and enhance yield. This strategy applies our proprietary stochastic model, to assign probabilities of the desired outcome for a given investment strategy versus a liability stream through time.

### ***Alternative Products- Credit Opportunities Strategy***

This strategy seeks to opportunistically capitalize on credit and liquidity stress in the markets affecting the "spread" fixed income sectors with primary focus on structured finance securities (including residential and commercial mortgage-back securities, collateralized debt obligations and asset-backed securities) and corporate bonds. The strategy seeks to deliver high absolute and risk-adjusted returns primarily through capital appreciation over a three- to five-year investment horizon. This strategy invests across a broad range of structured finance and corporate subsectors including sectors/securities that are performance-distressed or credit-impaired. While the strategy is primarily focused on U.S. securities, it does have flexibility to purchase non-U.S. investments as well. A portfolio in this strategy may use leverage to enhance their returns and also may use derivatives (including credit derivatives) either for hedging or speculative purposes.

## ***Collateralized Debt Obligation (CDO) Management***

As CDO manager, CAMC is responsible for selecting, monitoring and trading the assets of the CDO portfolio within the parameters and constraints established by each CDO's structure and related legal documentation. Managed CDOs seek to deliver attractive returns to equity investors while ensuring that CDO debt holders are not subjected to undue risks. CAMC also serves as replacement manager on certain CDO transactions which are distressed/impaired and provide limited or no ability for trading in portfolio assets. CAMC's goal as replacement CDO manager is to actively monitor the asset portfolio, mitigate further downside risks and deliver enhanced outcomes to the CDO's investors while staying compliant with the parameters and constraints established by the transaction structure. Where transaction documents permit, relative value trading and/or defensive sales are tools used to enhance returns. In addition, analyzing and responding to corporate actions/consent requests on investments held in the CDO's asset portfolio or participating in investment workouts/restructuring proposals may best protect the interests of the CDO's investors.

### **RISKS INVOLVED**

Investment involves risk, including the possible loss of principal. No assurance can be given that the portfolio performance objective of an investment strategy will be achieved. Past performance is not a guarantee of future results.

The fixed income investment strategies utilized by the adviser generally have four principal risks: credit risk, volatility risk, interest rate risk and liquidity risk. Many of these risks in individual securities are mitigated in portfolio construction by having well diversified portfolios which enhances the overall return per unit of risk. A summary of these risks follow:

**Credit Risk:** Credit risk is the risk of deterioration of the financial condition of an issuer of securities that affects its ability to make timely payment of interest and principal and ultimately payment default. CAMC focuses primarily on investment grade credits, structuring portfolios with an emphasis on mitigating negative credit events. Accordingly, we tend to structure client portfolios to select higher rated credits with longer dated final maturities and to select lower rated credits with shorter dated final maturities to provide additional yield.

**Volatility of Returns:** CAMC defines this type of risk as measured by the standard deviation of returns relative to the benchmark. We seek to provide clients with high risk-adjusted results by focusing on spread sectors to drive return enhancement, and therefore to mitigate volatility and achieve higher risk-adjusted returns versus our benchmarks and peers.

**Interest Rate Risk:** Interest rate risk describes the sensitivity that a given security or portfolio has to changes in interest rates. For example, the value of a fixed rate bond is reduced as interest rates increase because investors demand lower prices to compensate for the higher yields available in the marketplace. CAMC mitigates interest rate risk by keeping portfolio duration generally within +/- 20 percent of the benchmark duration.

**Liquidity Risk:** This refers to the risk stemming from the lack of marketability of an investment that cannot be bought or sold quickly enough to prevent or minimize a loss. In the fixed income market, liquidity risk is related to the willingness of brokers to buy and/or sell a given security when the portfolio manager is ready to trade. We mitigate liquidity risk by structuring a portfolio

to include securities with laddered maturities that match client cash flow needs. As additional safeguards, CAMC seeks to limit portfolio exposure to not more than 10 percent of any particular issue and considers the extent of liquidity in the secondary market.

CAMC does not view the above noted risks relating to fixed income portfolio management as “significant” or “unusual” in a portfolio context across the set of investment strategies offered by the firm. We believe that these risks are mitigated through the benefits of diversification of portfolio holdings. Exposure to fixed income management risk is most appropriately considered in the context of investment in specific categories of securities relating to the firm’s investment strategies.

Generally, securities recommendations made by CAMC are determined with reference to the investment guidelines and restrictions applicable to particular client accounts. Various categories of structured finance and high yield corporate securities which are frequently recommended by CAMC involve special risks which can be identified as follows.

**RIBS:** Residential Mortgage-Backed Securities (RIBS) are generally pass-through securities that experience cash flows based on the performance of the underlying loan pool. The highly granular and diversified nature of residential loan pools tend to reflect more macroeconomic factors than the event-risk typical of corporate bonds. Based on the performance of these loans, bond cash flows may face prepayment risks on bonds trading at dollar premiums and extension risk on bonds trading at dollar discounts, which would lead to worse realized yield-to-maturity performance than may have been initially projected. Pass-through securities will also introduce considerable cash flow uncertainty which may make them poorly suited for asset-liability matching strategies.

**COMBS:** Commercial Mortgage-Backed Securities (COMBS) are generally pass-through securities which are less diversified than residential pools and are therefore much more susceptible to the unique credit characteristics of the underlying loans. Furthermore, the impact of macroeconomic factors such as consumer spending and employment will vary in accordance with the different property types (e.g., retail, office, multifamily, industrial) and geographic concentrations that may be present within a COMBS pool. One other major consideration in modeling risk for COMBS is the balloon nature of the loan repayment schedules. This introduces significant refinancing risk on the loans at their scheduled maturity date and requires assumptions on the likelihood that a loan will be refinanced on a timely basis or extended by the servicer.

**Corporate High Yield:** Issuers of high yield securities generally have more limited revenue and cash flows, higher leverage in their capital structures and less access to capital markets, than companies issuing investment grade debt. Therefore, investing in high yield corporate bonds entails increased credit risk, a higher probability of default, and higher liquidity risk. High yield issues also tend to have higher return volatility, and somewhat less interest rate risk, given the shorter duration of such issues compared to investment grade corporate bonds.

**Item 9: Disciplinary Information**

There are no legal or disciplinary events that are material to a client's evaluation of our advisory business or to the integrity of our management.

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

CAMC, in addition to being a registered investment advisor, is also a registered broker/dealer and a FINRA member. The existence of this dual registration does not create material conflicts of interest with clients because CAMC is not actively engaged in the brokerage business.

CAMC has one affiliated entity under common control which is a registered investment adviser. This entity is Cutwater Investor Services Corp. (“CISC”). Currently there are nine (9) CISC management persons serving as registered representatives for the CAMC broker/dealer. Each of CISC and CAMC, has agreements with its own respective client accounts and is governed by the trade allocation and aggregation policies and by the code of ethics applicable to the Cutwater entities. Please see response to item 11.

CAMC has adopted certain policies and procedures intended to mitigate any conflicts of interest arising from trading on behalf of various affiliated and non-affiliated accounts. Please see response to item 11.

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

CAMC has adopted a written Code of Ethics (“the Code”) for the firm and its supervised persons. The Code contains a standard of business conduct reflecting the fiduciary duties of CAMC and its supervised persons to the firm’s advisory clients and requires supervised persons to comply with applicable federal securities laws. The Code prohibits related persons who are directors, officers or employees from purchasing or selling any security when, to his or her actual knowledge at the time of such transaction, the same security is being purchased or sold, or is being recommended for purchase or sale, for one or more clients. This prohibition is subject to exceptions for non-volitional or de minimis transactions and requires access persons of the firm to report their securities transactions and holdings on a periodic basis. Access persons are also subject to a pre-clearance requirement for most personal securities transactions. CAMC will provide a copy of its Code to any client or prospective client upon request. A copy can be obtained by writing or calling the address/phone number set forth on the cover page of this document.

The Code includes a number of provisions to mitigate conflicts of interest to clients from personal trading by related persons. The Code provides that no access person shall purchase or sell directly or indirectly, any security in which he or she has or by reason of such transaction acquires, any direct or indirect beneficial ownership and which he or she knows or should reasonably know, at the time of such purchase or sale: is being considered for purchase or sale by a client, or is being purchased or sold by a client. The Code also states that no access person shall disclose to other persons the securities activities engaged in or contemplated for a client.

CAMC and certain of its affiliated entities may invest for its/their own accounts (“proprietary accounts”) in securities that are also recommended for advisory clients. It is possible that trading for such proprietary accounts may result in CAMC or its affiliates taking positions similar to or opposite to positions taken by one or more advisory clients. CAMC has adopted certain policies and procedures for trade execution, trade allocation, and order aggregation which are intended to mitigate any conflicts of interest arising from proprietary trading.

## **Item 12: Brokerage Practices**

In selecting or recommending broker/dealers for client transactions CAMC considers the following factors, among others: expertise in the specific securities or sectors in which we seek to trade; creditworthiness; financial and capital position stability; execution and settlement capabilities; the quality of operational facilities; and the type, size and difficulty of the transaction involved.

Transactions in fixed income securities recommended by CAMC do not involve brokerage commissions. Reasonableness of compensation for a particular transaction is determined by reference to competitive bid and asked quotations on particular transactions being executed. CAMC has a fiduciary obligation to seek best execution for each client trade.

Where a decision has been made to purchase or sell a particular security for multiple client accounts/portfolios simultaneously, CAMC will combine orders across such accounts to place a larger/aggregated order into the market for execution.



### **Item 13: Review of Accounts**

CAMC performs a quarterly basis review of each client account and provides clients with information in a standardized report format. Client account reviews are performed by supervised persons who generally hold the title of Vice President or above and who have portfolio management responsibility.

An account review will be triggered if there is a unique circumstance, such as a material increase in funding for the account. CAMC will also review client accounts upon a client's request.

Written client reports are provided at least on a quarterly basis and can be delivered in electronic form or can be mailed to client. Reports contain information about the client's account holdings, transaction activity, accrued income, cash positions, account valuation, and portfolio performance.

**Item 14: *Client Referrals and Other Compensation***

In the past, CAMC has entered into solicitation arrangements with third parties for the referral of prospective clients to the Firm, but currently does not use solicitors, and has no plans to enter into such arrangements. All solicitation arrangements have been conducted in compliance with the requirements of Rule 206(4)-3 of the Investment Advisers Act of 1940.

**Item 15: Custody**

CAMC does not maintain custody of client funds or securities.

**Item 16: Investment Discretion**

CAMC manages many client accounts pursuant to discretionary authority. Occasionally, a client may place a limitation on CAMC's management discretion; for example, restricting the authority to sell securities which will result in realized capital gains or losses for tax purposes. CAMC often assumes discretionary authority pursuant to the terms of the client investment advisory agreement which provides for such authority. In other cases, CAMC will confirm by written communication with the client that it has discretionary authority in managing the account.

## **Item 17: Voting Client Securities**

As a fixed income investment manager CAMC votes proxies for client securities on a relatively infrequent basis. CAMC does have authority to vote such proxies and has adopted a proxy voting policy to ensure that proxies are voted in the best interest of each client. CAMC also votes or consents, on a more frequent basis, corporate actions, including tenders, exchanges, amendments, and restructurings which relate to individual fixed income holdings of client accounts. While our determinations on voting or consents to these matters will generally comply with the terms of our proxy voting policy they tend to be driven primarily by our view of whether the proposed action will result in an economic benefit for the affected client(s).

### *Voting Policy*

In general, CAMC will vote in accordance with management's recommendations as to routine corporate matters such as those dealing with: appointments of auditors, routine election of directors, improvements in employee stock purchase or ownership plans, limiting liability of directors, setting compensation levels, increasing authorized shares. CAMC will generally vote against shareholder proposals involving matters of social conscience if it has determined that management is generally socially responsible. For example, we will generally vote against shareholder proposals to bar or place arbitrary restrictions on trade with other countries, or to place arbitrary restrictions on environmental practices.

CAMC will generally vote in favor of management proposals seeking to change an issuer's legal, business or financial structure provided that the position of current shareholders is preserved or enhanced. For example, we will generally vote in favor of proposals to approve mergers and acquisitions or to change capitalization.

Resolutions regarding anti-takeover measures will be considered individually. CAMC would typically oppose any proposal aimed solely at thwarting potential takeover offers by requiring, for example, super-majority approval. However we would also vote against proposals considered to foster instability or to be economically detrimental.

### *Voting Process*

Proxies are normally voted by the principal portfolio manager for the client account holding securities of the issuer soliciting the proxy. If more than one account holds these securities, then the portfolio manager of the account(s) holding the largest allocation of the issue will vote the proxy. CAMC has designated a portfolio manager (the Proxy Voting Portfolio Manager), who is responsible for overseeing the implementation of the proxy voting process.

In circumstances in which 1) the subject matter of the vote is not covered by these guidelines, 2) a material conflict of interest is present or 3) we believe it may be necessary, in the best interests of shareholders, to vote contrary to our general guidelines, the portfolio manager will discuss the matter with the Proxy Voting Portfolio Manager, who will be responsible for making the definitive determination as to how the proxy matter will be voted. In unusual or especially sensitive cases, the Proxy Voting Portfolio Manager may consult with the Chief Executive Officer/Chief Investment Officer to arrive at a proxy voting decision. Determinations with respect to proxy votes involving material conflicts of interest shall be documented in writing and maintained for a period of at least six years.

Clients may obtain information about how their securities were voted by contacting their CAMC relationship manager who will contact the portfolio manager to respond to such request. Clients may request a copy of our proxy voting policies by contacting their CAMC relationship manager.

**Item 18: Financial Information**

CAMC is not aware of any financial condition that is reasonably likely to impair its contractual commitments with clients.