

Form ADV – Part 2A



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This brochure provides information about the qualifications and business practices of NISA Investment Advisors, L.L.C. If you have any questions about the contents of this brochure, please contact us at 314-721-1900. 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. The terms "registered" and "registered investment adviser" do not imply a certain level of skill or training.

Additional information about NISA Investment Advisors, L.L.C. is available on the SEC's website at: www.adviserinfo.sec.gov

The following statement is required by the rules of the Commodity Futures Trading Commission:

Pursuant to an exemption from the Commodity Futures Trading Commission in connection with accounts of qualified eligible persons, this brochure or account document is not required to be, and has not been, filed with the Commission. The Commodity Futures Trading Commission does not pass upon the merits of participating in a trading program or upon the adequacy or accuracy of commodity trading advisor disclosure. Consequently, the Commodity Futures Trading Commission has not reviewed or approved this trading program or this brochure or document.

Item 2 – Material Changes

This section describes the updates to this document made since it was last filed with the SEC on March 30, 2012 that NISA believes were material changes:

There were no material changes to this document made in the update of December 6, 2012.

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Item 4 - Advisory Business

About NISA

NISA Investment Advisors, L.L.C. is registered as an investment adviser under the Investment Advisers Act of 1940 (the "Advisers Act"). NISA began advising clients in April 1994. NISA's principal owners are:

Jess Yawitz, Chairman and Chief Executive Officer (through Parkridge, Inc.),
and

William (Bill) Marshall, President (through Marshall Holdings, Inc.).

Types of Advisory Services

NISA manages assets on a fully or partially discretionary basis. Refer to **Item 16 – Investment Discretion** for more information about the requirements for NISA to accept discretion for client assets.

NISA focuses on the following investment sectors:

- domestic high-grade fixed income;
- domestic public equity; and
- synthetic exposure to domestic and international fixed income and equity, currency, and commodity markets.

NISA may also provide other investment advice. This advice may be more general in scope than the advice normally given in a typical asset management assignment. Examples of this advice include asset/liability management, rebalancing policy, and stable value wrap selection and administration. Typically, NISA tailors this advice to the client's investment objectives and circumstances. NISA may provide this type of advice on a discretionary or non-discretionary basis.

Investment Restrictions

NISA assists each client in developing investment guidelines tailored to the client's specific needs. The guidelines generally specify limits on the type and amount of securities held. The client may specify limits at the issuer, industry, rating or other level. NISA will accept other restrictions if we believe we can comply with them.

Wrap Fee Programs

NISA does not participate in or sponsor wrap fee programs.

Assets Under Management

NISA calculates assets under management for use in our client and promotional presentations, regulatory filings, consultant databases, composite calculations and for other similar uses. NISA's assets under management calculation normally includes actively managed cash assets such as regular cash portfolios, including those that utilize derivatives to manage duration, actively managed cash collateral portfolios and the marked-to-market value of:

- derivatives used in cash securities portfolio management;
- derivatives used to adjust the duration of a cash securities portfolio in which the use of derivatives is incidental to the investment strategy; and
- derivatives used in synthetic exposure portfolios that are secured by collateral.

NISA generally excludes the following assets when calculating assets under management:

- derivatives in overlay-only engagements managed as part of an overlay of cash assets not managed by NISA;
- derivatives in a duration overlay engagement;
- the market value of accounts over which NISA has no discretion, such as an account that has been liquidated for withdrawal or for which NISA has received a termination notice;
- stable value assets for which NISA only provides wrap administrative services; and,
- collateral posted by a counterparty to a client.

As of December 31, 2011, NISA managed the following assets under management:

| | |
|-------------------|---------------------|
| Discretionary | \$81,184,818,577.03 |
| Non-Discretionary | Not Included |
| Total | \$81,184,818,577.03 |

Additionally, as of December 31, 2011, NISA managed over \$40 billion notional value in derivatives. \$30 billion of that notional value is in interest rate derivatives, which represents over \$200 billion in dollar duration exposure. The notional value required to obtain a specified dollar duration will vary depending on the instrument(s) used.

Additional Information with Respect to Regulatory Assets Under Management Found in Part 1 of this Form ADV: The SEC has created a classification of assets under management called "regulatory assets under management" or "RAUM". NISA's RAUM calculation, as defined by the SEC, includes more assets than NISA normally includes when calculating assets under management. In addition to requiring the inclusion of more assets, the RAUM also requires definitions of

discretionary and non-discretionary assets that are different from those NISA uses when reporting assets under management.

NISA's RAUM includes the assets of all client accounts that meet the SEC's definition of a securities portfolio, including cash and cash equivalents, for which NISA provides continuous and regular supervisory or management services. Some of these assets include, but are not limited to:

- the absolute value of the marked-to-market positions of each derivative instrument, as well as cash and cash equivalents held in these accounts. Using the absolute value of these positions means NISA counts a negative marked to market value as a positive.
- the market value of cash and cash equivalents (generally, STIF and or T-Bills) set aside to meet derivative collateral requirements.
- temporary portfolios holding securities that are set aside to raise cash for upcoming withdrawals; and stable value assets for which NISA provides wrap administrative services.

The following is a non-exhaustive list of assets that NISA does not include in RAUM:

- the market value of broker owned collateral posted to client accounts; and,
- any measure of derivative notional exposure.

RAUM is a higher number than the assets under management number NISA uses in our promotional materials. In fact, NISA does not use RAUM in any place other than our Form ADV.

Other Information

NISA provides similar services to many clients. NISA's advice to one client may not relate to, and may differ from, the advice given and/or timing of NISA's advice to another client.

NISA may acquire "inside information" about companies or their securities. If NISA believes we have inside information about a security or issuer, we will not act on that security or related securities. This may limit the universe of securities in which NISA can invest for our clients. NISA does not believe that these restrictions will materially affect our ability to provide investment advisory services to our clients.

Item 5 – Fees and Compensation

Fees

Fee schedules and the manner in which fees are calculated may be negotiable. The client's Investment Management Agreement specifies the fee schedule and terms. The following describes the general terms and practices frequently specified in such agreements.

The following are NISA's standard annual fee schedules.

| <u>Fixed Income and Equity</u> | <u>Synthetic Exposure</u> |
|-----------------------------------|--------------------------------|
| 0.225% on the first \$100 Million | 0.10% on the first \$1 Billion |
| Negotiable on the balance | Negotiable on the balance |

Typically, Fixed Income and Equity fees are based on the market value of the account. The client's Investment Management Agreement specifies the valuation frequency and timing and the party that provides the market value for billing purposes. Synthetic Exposure fees are based on a measure other than market value, for example, notional value, to seek to fairly compensate NISA for our services. Fee agreements typically specify an adjustment to market value or other measure to pro-rate for contributions and withdrawals during the billing period. NISA may require a minimum quarterly or annual fee.

NISA may require a one-time set-up and/or start-up fee for engagements that require greater initial costs for NISA. These fees are not pre-paid fees. These fees are non-refundable and are payable at the time the agreement is executed. Clients may also pay NISA a retainer fee or other type of fee for investment services. These types of fees are paid in arrears and are non-refundable.

NISA may agree to a fee based on the performance of the client's account relative to a specified benchmark over a specified period. Account performance typically includes income and realized and unrealized capital gains of the client's account. Typically, the client's custodian provides this information. NISA and the client agree to and specify the terms of the performance fee in the client's Investment Management Agreement. Refer to **Item 6 – Performance-Based Fees and Side-By-Side Management** for important disclosures related to performance fee agreements.

NISA may agree to combine assets from related accounts for billing purposes. The client determines the allocation of the fees among related accounts.

For some engagements, different fee schedules may apply to different types of financial instruments used in the engagement. As a result, NISA may be able to affect the amount of fees we receive by our choice of instruments.

Consider the following example.

An engagement includes a securities portfolio and a synthetic exposure portfolio. The fee schedule for the securities portfolio is higher than the fee schedule for the synthetic exposure portfolio. If NISA elects to cash out positive marked-to-market value of the synthetic exposure portfolio and invest the proceeds in the securities portfolio, the total fees NISA charges will be higher.

As described in **Item 4 – Advisory Business**, NISA may provide other investment advice. NISA negotiates the fees for this advice with each client based on the overall client relationship and scope of such services.

How and When Fees are Billed and Paid

NISA bills fees in arrears, typically quarterly. NISA does not deduct fees from the client's account, nor do we have the authority to do so. The client or its designee must direct fee payment.

In most cases, the client uses the market value determined by the client's custodian for billing. However, the client may direct NISA to use the market value determined by NISA.

NISA uses a pricing service for equity securities. The fee calculated using NISA's market value should not be materially different than the fee calculated using a commonly used market value source. Synthetic equity fees are based on a value other than market value. NISA does not use a pricing service for fixed income securities. NISA internally determines fixed income security prices. For more information, please refer to **Item 8 – Methods of Analysis, Investment Strategies and Risk of Loss**. The fee calculated using NISA's market value could be different than the fee calculated using a different market value source.

Other Fees and Expenses

NISA provides investment advisory services and, certain ancillary services to investment advisory clients. These ancillary services vary among clients and may include, but are not limited to: reporting, coordination and support services, document facilitation, and information on benchmarks/investment products.

In addition to NISA's fees, a client must pay fees to other service providers for services such as custody, transaction settlement, pricing, record keeping, and audit. The client makes its own arrangements and negotiates the terms of these services. The client will incur brokerage and other transaction-related costs. These costs are included in the net settlement costs/proceeds of the trade. Please see **Item 12 – Brokerage Practices** for a description of NISA's brokerage practices.

NISA's clients usually elect to sweep cash from their accounts to a cash management fund the client selects. NISA does not manage such funds. NISA typically bills clients on a total account value, without a reduction for cash held in the account. As a result, NISA's clients may pay multiple fees for cash balances.

The client's guidelines may permit, and NISA may choose, to purchase funds and/or securities that charge investment fees in addition to NISA's fees. As a result, the client pays multiple fees for those assets.

Advance Payment of Fees

NISA or the client may terminate the Investment Management Agreement without penalty. NISA does not require advance payment of fees, but if applicable, NISA will reimburse any unearned fees due to the client upon termination of the agreement.

Other Compensation

Neither NISA nor any of our employees receive compensation for selling securities or other investment products to clients.

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

As described in **Item 5 – Fees and Compensation**, some clients pay performance-based fees to NISA. NISA also manages accounts that pay non-performance based fees. Managing these accounts side-by-side may create conflicts of interest between NISA and our clients.

For example, when allocating investment opportunities, NISA may have an incentive to favor performance-based fee accounts over accounts with other fee arrangements. For clients that pay a performance fee, NISA may have an incentive to pursue strategies or make investments that are more risky or speculative than we would in the absence of such a fee.

NISA has several policies designed to mitigate these types of conflicts. NISA's Standards of Professional Conduct and Conflicts of Interest policies provide guidance for treating clients fairly. In addition, NISA's Trade Allocation policy specifies that trades be allocated equitably among clients. NISA's Compliance Group periodically reviews investment activities to assess compliance with these policies.

Item 7 - Types of Clients

NISA provides investment advice only to institutional clients. Our clients include:

- Pension and profit sharing plans and other post-retirement benefit programs
- Nuclear Decommissioning Trusts
- Not-for-profit entities such as charitable, educational, healthcare, religious organizations and endowments
- Insurance companies
- Corporations

NISA does not require a specified minimum account size to open or maintain an account, but may require a minimum fee as described in **Item 5 – Fees and Compensation**.

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

Overview

Generally, a client specifies a benchmark index for its portfolio. In these cases, the client chooses a benchmark and specifies guidelines that reflect the client's investment objectives and risk tolerance for the portfolio.

Investing in securities involves the risk of loss that a client should be prepared to bear. The potential magnitude and likelihood of the loss will vary primarily with the benchmark selected or the investment goals set by the client.

Strategies

Fixed Income

NISA seeks to achieve portfolio returns that closely track the relevant benchmark returns. NISA's secondary objective is to achieve excess returns vis-à-vis the benchmark, commonly known as alpha.

Our clients generally define risk as tracking error vis-à-vis the relevant benchmark (the volatility of alpha). We evaluate each position net of the benchmark to determine "active" risks. We strive to structure risk-controlled portfolios with diversified sources of risk. This strategy does not generally include large or volatile active positions. Rather, we seek to generate profits for our clients from a large number of small, diversified active positions. Our goal is to implement active positions that we believe meet the client's active risk/reward

thresholds either on an individual basis or when viewed in the context of the entire portfolio.

As described in **Item 4 – Advisory Business**, the client’s guidelines specify limits on the amount and types of investments NISA may hold in the portfolio. These limits provide general guidance to NISA in determining the amount and type of active risk NISA may take in the portfolio.

NISA utilizes what we believe to be a highly analytical and quantitative approach toward investing which emphasizes research of the overall economy, sectors, industries, issuers, and individual securities. This enables us to look at a wide variety of opportunities rather than depend on a single strength, such as credit analysis.

NISA does not believe that interest rate timing can produce excess returns that justify the volatility associated with such strategies. Therefore, we seek to keep each portfolio’s duration approximately neutral to its benchmark and do not expect interest rate timing to contribute to alpha.

Our investment strategy includes strategic (yield-curve positioning and sector selection) and tactical (security selection and trading) decisions.

Strategic Decisions

NISA’s Investment Committee develops strategic themes based on market and economic research. Strategic decisions are more important in portfolios whose benchmarks contain only U.S. Government securities.

Yield Curve Positioning - NISA closely monitors the yield curve exposure of each portfolio relative to its benchmark. We may engage in modest yield curve positioning to reflect views on volatility and to take advantage of what we believe to be technical aberrations in yield curve slope and curvature.

Sector Selection - In making sector selection decisions, we evaluate the relative compensation for bearing the risks inherent to each sector. We evaluate these risks in the context of our market and economic research.

Tactical Decisions

We implement tactical decisions when structuring the portfolio to reflect the desired strategic positioning. Tactical decisions include industry and issuer under/over weights based on relative value analysis, as well as active trading. NISA’s Fixed Income Portfolio Management group is responsible for making tactical decisions.

Security Selection – We seek to profit for our clients from pricing inconsistencies. We believe that pricing inconsistencies frequently result

from the specific preferences of some investors due to, for example, tax status, investment horizon, liquidity needs, risk tolerance, or regulatory constraints. In analyzing these opportunities, we utilize our quantitative expertise and analytical approach. By breaking down complex securities into their fundamental parts, we are able to value each component (i.e., cash flows and embedded options) individually, and sum the component values. While certain investors may not focus on an unfamiliar structure, NISA seeks to verify that the security is “cheap” or “rich” relative to comparable investments and to measure the risks it brings to a portfolio. NISA believes this approach is highly analytical and quantitative and the analyst attempts, where possible, to explicitly identify and quantify the sources of risk and value in the investment in a way that NISA decision makers can verify. We use the same process in both our buy and sell decisions.

Active Trading - As active traders, we find frequent opportunities to trade similar bonds for small gains at little or no incremental risk. Every position is for sale every day and we may sell a position if there is another bond that represents better value to replace it or if the conditions that warranted its purchase no longer exist.

A note about frequent trading: Frequent trading may result in increased transaction costs and reduced returns. NISA evaluates the transaction costs inherent in our trading strategies and on each trade. These costs are included in NISA’s performance calculations and reporting. Transaction-related custodial costs, however, are not included in NISA’s performance calculations and reporting. Each client negotiates its own custodial fees and arrangements. If the client’s custodian charges a per trade fee, the client’s realized return will be reduced by the amount of those fees.

Additional considerations for Stable Value Clients

NISA manages fixed income portfolios for stable value funds. NISA may agree to select a wrap provider for the portfolio NISA manages for the fund and provide wrap administration services. NISA’s primary considerations for selecting a wrap provider are its contract terms and creditworthiness. In addition to the fixed income investing risks described below, a stable value fund may be exposed to the wrap provider’s credit risk.

Additional considerations for Taxable Clients

NISA does not purport to be experts in, and does not provide, tax, legal, accounting or any related services or advice. Tax, legal or accounting related statements are for analysis purposes only and are based upon limited knowledge and understanding of these topics. You should consult your advisors with respect to these areas.

When selecting a benchmark, the client also considers its tax circumstances. Clients in lower tax brackets typically select taxable bond benchmarks, while

clients in the higher tax brackets generally select tax-exempt municipal bond benchmarks.

NISA works closely with each taxable client to understand the tax circumstances and objectives of the engagement. Active tax management includes detailed analysis of unrealized gains and losses at the tax lot level. NISA monitors, on a daily basis, the estimated book value of each security in the portfolio and the approximate after-tax contribution to portfolio performance of holding or selling a security.

Taxable Bond Benchmarks - Our primary objective is to achieve excess after-tax returns vis-à-vis the benchmark. We employ the same risk-controlled strategy described above, with two additional considerations.

First, we may overweight certain taxable bonds that receive preferential tax treatment. In particular, clients with very high state tax rates may benefit from holding certain U.S. Government securities that are exempt from state taxes. Additionally, we may hold state tax-exempt municipal bonds that we believe offer attractive after-tax yields.

Second, turnover in our taxable portfolios is generally lower than it is for non-taxable portfolios since the client must pay taxes on recognized gains. Therefore, in periods of declining interest rates (increasing prices), we generally trade taxable portfolios less frequently. In periods of rising interest rates (declining prices), we are likely to trade taxable portfolios more frequently.

Municipal Bond Benchmarks - NISA believes that the primary benefit of investing in municipal bonds is the tax advantage associated with the sector, and that opportunities for over or underperformance due to changes in the credit outlook of an issuer are rare. Our objective is to construct portfolios that are high quality and well diversified, with more liquid securities.

We invest primarily in tax-exempt municipal bonds that have been “pre-refunded” or “escrowed to maturity.” A pre-refunded or escrowed to maturity municipal bond is a security where a third party trustee holds U.S. Treasury and/or other U.S. Government securities sufficient to pay interest and principal on the municipal bond. Even though the municipal bond has been defeased with U.S. Government securities, the income from these bonds continues to be federally tax-exempt.

We also seek to construct portfolios to benefit, to the extent possible, from the client’s specific tax situation. For example, we may overweight in-state municipals if they are state-tax exempt for a specific client. The amount of the overweight is a function of the state tax rate and the after-tax yields of in-state versus out-of-state bonds.

Risk

Duration is the price sensitivity of a bond to changes in interest rates and is the primary determinant of risk in fixed income investing. Other fixed income risks include:

- Creditworthiness – The issuer may default.
- Liquidity – Bonds are not exchange-traded, but rather are traded “over-the-counter.” Some securities may be difficult to sell, particularly in times of market turbulence.
- Optionality – Certain securities have structural features that may impact their realized return. For example, some bonds are callable – that is, the issuer can redeem the security at a date prior to its maturity. Similarly, for structured securities such as asset-backed securities and mortgage-backed securities, the expected cash flows may vary with the cash flow of the assets collateralizing those securities. If the cash flow of the underlying assets is different than expected, the cash flow of the security may vary and change the realized return.

NISA does not generally use out of benchmark asset classes in our fixed income strategies. NISA does not use derivatives in these strategies, but may manage synthetic overlay strategies in conjunction with fixed income portfolios. The client determines the extent of derivatives use in the strategy.

Pricing

NISA does not use a pricing service for fixed income securities. NISA internally prices fixed income securities. NISA prices most securities using market data provided by the relevant index provider, but may use other data sources or our own judgment in pricing securities. These internal calculations are used to create our composite performance returns that are shown to prospective clients and clients, although clients also may receive performance returns from their independent custodians. The internal pricing practices NISA uses will impact NISA’s calculated and reported performance returns, alpha and tracking error. The performance returns, alpha and tracking error calculated using other prices will be different from those that NISA reports. NISA will provide a summary of our Pricing and Valuation policy upon request.

Equity

Note: NISA’s equity strategy is intended primarily for taxable investors. NISA manages equity portfolios for a few tax-exempt clients seeking index-like returns or international exposure through exchange-traded funds.

NISA does not purport to be experts in, and does not provide, tax, legal, accounting or any related services or advice. Tax, legal or accounting related statements are for analysis purposes only and are

based upon limited knowledge and understanding of these topics. You should consult your advisors with respect to these areas.

NISA's objective is to achieve index-like pre-tax returns and enhance the portfolio's after-tax return relative to the benchmark's after-tax return ("after-tax alpha"). NISA seeks to achieve after-tax alpha by actively realizing losses and deferring the recognition of gains.

NISA works closely with each taxable client to understand the tax circumstances and objectives of the engagement. Active tax management includes detailed analysis of unrealized gains and losses at the tax lot level. NISA monitors, on a daily basis, the estimated book value of each security in the portfolio and the approximate after-tax contribution to portfolio performance of holding or selling a security.

NISA employs a quantitative approach to portfolio management, using a third-party multi-factor model to construct a portfolio with risk characteristics similar to its benchmark's characteristics. Risk characteristics include factors such as price volatility, price momentum, stock capitalization, earnings volatility, dividend yield and economic industry. We construct and maintain the portfolio to closely track the benchmark's industry, fundamental and technical risk characteristics.

We review and evaluate security and industry exposures, along with the unrealized gain/loss in each tax lot daily. We evaluate each position in terms of the tax cost/benefit of trading and the resulting impact on portfolio tracking error. We sell securities to realize losses and/or adjust or maintain the portfolio's tracking error objective. NISA executes equity trades primarily through "market on close" orders. A market on close order is executed at or near the exchange closing time and typically at or near the closing price.

Risk

General equity market risk is the primary determinant of risk in equity investing. Given NISA's tight tracking error objectives, we do not expect individual security performance to pose additional material risk.

Synthetic Exposure

The client determines the extent of potential derivatives use. NISA uses derivatives to obtain synthetic exposure specified by the client. A client may use synthetic exposure to hedge liabilities, overlay cash, rebalance asset allocation, and implement tactical views, among other things. NISA's clients commonly request synthetic exposure, which can be a long or short position, for the following:

- Duration overlay
- Domestic and international equity indices

- Foreign currency
- Commodities
- Domestic fixed income indices

NISA's primary objective is to achieve portfolio returns that closely track the return of the benchmark or index that reflects the client's objective. NISA uses many types of derivative instruments, including futures, forwards, swaps and options.

The client must establish certain documentation with a Futures Commission Merchant in order to transact in exchange traded futures and options. The client must establish certain documentation with a counterparty in order to transact in OTC derivative instruments. Please refer to **Item 12 – Brokerage Practices for more information.**

Duration Overlay

NISA's pension plan clients may use a duration overlay strategy to reduce the interest rate sensitivity mismatch between the plan's assets and liabilities. We typically work closely with each client, its advisors and actuaries to understand the objective, customize the strategy, specify benchmarks and risk tolerances, and develop investment guidelines. When derivatives play a strategic role in the engagement, NISA typically suggests interest rate swaps as the primary source of duration and yield curve management.

Domestic and international equity, currency and domestic fixed income

Typically, NISA assists the client in determining the type(s) of instruments that offer a cost and tracking error trade-off that meets the client's objective for the strategy. The size of the program and/or target benchmark or index may be significant considerations in the choice of instrument. Often, the OTC market is more liquid than the futures market. The OTC market also allows for customization to meet specific client needs.

Synthetic exposure to international equity indices generally includes a currency overlay. Additionally, NISA's clients may direct NISA to obtain a specific currency exposure. NISA generally obtains currency exposure using forward agreements executed under an International Swaps and Derivatives Association ("ISDA") Agreement.

Commodities

Generally, the client specifies its desired commodity exposure in terms of specific commodity futures contracts or a commodity index. Commodity indices are typically based on commodity futures contracts rather than physical commodities. Depending on the client's objectives, NISA may use futures or OTC instruments to obtain commodity exposure.

Risk

The underlying market risk is generally the largest risk in synthetic exposure programs. The next largest potential source of risk is credit risk of the counterparty.

The counterparty for futures transactions is the futures exchange clearinghouse. Thus, one market participant is not directly exposed to the risk of another market participant. The clearinghouse reduces its risk to market participants with initial margin requirements and rules for liquidating positions if a participant fails to post required margin. Market participants are exposed to the bankruptcy risk of the Futures Commission Merchant.

OTC transactions are agreements between a client and counterparty and do not currently trade, settle or clear on an exchange or through a clearinghouse. As such, the client is at risk to the counterparty. In order for NISA to execute trades in OTC derivatives, the client must establish certain documents with a counterparty as described in **Item 12 - Brokerage Practices**. The client can include certain protections in its counterparty agreements, including collateral agreements. Collateral agreements can mitigate much of the potential counterparty risk. The specifics of the collateral agreement will determine the degree of risk reduction. Collateral agreements specify timeframes and deadlines for requesting collateral. NISA makes reasonable efforts to request collateral, if applicable, before the first deadline. If NISA's business is interrupted, NISA may not be able to request collateral in a timely manner. If such an event occurs, we will contact the affected clients as soon as practicable.

The Dodd-Frank Wall Street Reform and Consumer Protection Act requires, among other things, the SEC and CFTC to develop rules relating to all aspects of trading swaps. Although many of the rules are not final at this time, NISA anticipates that the documentation, trading and operations processes relating to swaps will change substantially. These changes, or even the uncertainty as to what the changes may require, may affect the market. This market uncertainty may affect liquidity and pricing which may present additional risks to clients.

Other Practices

Investing contributions and divesting for disbursements

NISA generally executes trades to invest contributions at or near the market close (or later if sufficient liquidity is available) on the day that the client's custodian confirms deposit of funds in the client's account. If NISA is not able to invest on the date of the deposit, NISA may, in our discretion, or at the client's direction, invest the following day by market close.

An authorized client signatory must provide instruction to NISA to create liquidity to provide for an upcoming withdrawal. NISA generally executes the trades to fund a withdrawal at or near the close of business on the day before the withdrawal. NISA may execute the necessary trade at other times if directed by the client, required due to the standard settlement convention of the securities being sold or required due to custodian requirements.

Significant Cash Flows

NISA uses a temporary portfolio methodology for significant portfolio cash flows as permitted by the Global Investment Performance Standards ("GIPS"). When a client makes a significant contribution to its portfolio, as defined in NISA's Large and Significant Cash Flows policy, NISA accounts for it in a separate portfolio in our systems until it is fully invested in the strategy. On certain trades, NISA may allocate the trade to both the permanent and temporary portfolio. As a result, for those trades, NISA will send two trade instructions to the custodian. If the client's custodian charges a per trade or per settlement fee or an additional fee for each holding lot, this will result in additional fees. If the client's custodian does not charge such fees, there will not be any additional cost.

Item 9 - Disciplinary Information

We are required to disclose all material facts regarding any legal or disciplinary events that may be material to a client's evaluation of NISA or the integrity of NISA's management. Events we are required to disclose include, but are not limited to:

- criminal or civil action for investment-related activities;
- an administrative proceeding before a regulatory agency for investment-related activities; and
- a self-regulatory organization proceeding related to investment activities.

Neither NISA nor any of our employees have any such information to disclose.

Item 10 - Other Financial Industry Activities and Affiliations

Broker-Dealer Affiliation

NISA is not registered nor does NISA have an application pending to register as a broker-dealer. No NISA employee is registered or has an application pending to register as a representative of a broker-dealer.

Futures and Commodities Industry Activities

NISA is registered as a Commodity Trading Advisor with the National Futures Association ("NFA"). Some of NISA's employees are registered with the NFA as Principals and/or Associated Persons. NISA may include futures and/or options contracts in an account if:

- the account's Investment Management Agreement permits such instruments, and
- the account meets certain regulatory requirements.

Please refer to **Item 5 - Fees and Compensation** for information on the potential conflict of interest NISA may have for managing both securities and derivatives in an engagement.

Other Industry Relationships and Arrangements

In 2012, NISA became registered as a "Portfolio Manager" in Canada in order to expand our services to prospective potential Canadian clients.

NISA does not have any other relationship or arrangement that we believes is material to our business or in conflict with our clients' interests.

Other Adviser Recommendations

NISA does not recommend or select other investment advisers for our clients.

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

Code of Ethics

All NISA employees are subject to NISA's Code of Ethics. The primary objective of the Code of Ethics is to prevent employees or their immediate family members from engaging in activities that create a conflict of interest between NISA or our employees and NISA's clients. NISA will provide our Code of Ethics to clients and prospective clients upon request.

NISA's Code of Ethics includes policies that cover the following:

Standards of Professional Conduct: This policy requires all NISA employees to:

- act with integrity, competence, diligence, respect, and in an ethical manner with the public, clients, prospective clients, employer, employees, colleagues in the investment profession, and other participants in the global capital markets.

- place the interests of clients and integrity of the investment profession above his/her own personal interests.
- use reasonable care and exercise independent professional judgment when conducting investment analysis, making investment recommendations, taking investment actions, and engaging in other professional activities.

Insider Trading: This policy prohibits all NISA employees from:

- trading in securities, either personally or on behalf of others (including accounts managed by NISA), while in possession of material nonpublic information related to those securities.
- communicating material nonpublic information to anyone other than the General Counsel or Chief Compliance Officer.

Personal Securities Transactions: See below for more information.

Gifts and Entertainment: This policy prohibits employees from giving gifts to or receiving gifts from persons:

- doing business or seeking to do business with NISA.
- for the purpose of influencing clients, prospective clients, their agents or consultants.

Political Contributions: This policy covers political contributions made by NISA employees and their immediate family members. They are:

- permitted to contribute to a candidate for state or local office an amount no greater than \$250 per election and only to a candidate for whom the employee is eligible to vote with the pre-approval of the Compliance Group
- prohibited from making or soliciting any third party to make contributions to: state or local political parties, political action committees ("PACs"), or any official related to transition or inaugural expenses or election/campaign debts.

Solicitation: NISA prohibits:

- direct or indirect compensation to third parties for introduction or referrals to clients or potential clients.
- improper payments in all business dealings in every country around the world, to individuals within either governmental entities or the private sector.

Conflicts of Interest: All NISA employees are required to:

- discharge his/her duties for the sole benefit of each NISA client.
- avoid activities, interests, and relationships that may (or may appear to) conflict or interfere with NISA's fiduciary duty to our clients.
- not take any action with respect to a client's account in order to benefit any person or entity other than NISA's client.
- not favor one client at the expense of another client.

Outside Activities: Employees are required to obtain prior approval:

- to serve on the board of directors or a creditors committee of any company with publicly available securities outstanding.
- for outside employment.
- to serve on the finance, investment or similar committee for a not-for-profit entity.

Confidentiality: Protecting confidential information is vital to NISA's interests and success. All NISA employees shall:

- not reveal any confidential information except to employees at NISA who need to know that information in order to carry out their duties on behalf of clients.
- take care not to disclose information about any client to a third party except as necessary to establish and manage the client's account, as requested or permitted by the client, as required by applicable law or as directed by senior management of NISA.

Supervisory Duties: This policy requires supervisors to, among other things:

- establish procedures and a system for applying such procedures, that are reasonably expected to prevent and detect violations of the Compliance Manual and NISA's other policies and procedures.
- promptly report violations of policies and procedures in the Compliance Manual to the Chief Compliance Officer.
- establish procedures that could be reasonably expected to monitor the accurate and timely performance of each employee's duties and responsibilities.

Employees are required to report violations of the Code of Ethics and other policies, including those committed by other employees, to the Chief Compliance Officer, General Counsel or President.

Participation or Interest in Client Transactions and Personal Trading

The following sections address NISA's and our employees trading and investment activities. This information applies only to Reportable Securities. "Reportable Securities" is defined in the Advisers Act. Most securities other than U.S. Treasuries and unaffiliated open-end mutual funds are Reportable Securities.

Investment in Securities NISA Recommends to Clients

NISA does not have a material interest in securities that we recommend, buy or sells for our clients. NISA monitors employees' investments and trading as described below. We do not believe that any employee holds an amount of securities that would be material to any publicly-traded security or issuer.

NISA does not believe that we are likely that such a situation will occur due to the types of securities that NISA buys or sells for our clients.

Employee Personal Trading

NISA's Personal Securities Transaction policy governs employee accounts. The policy includes the following requirements for trading Reportable Securities:

- employees must obtain prior approval for trades;
- employees must enter transactions in NISA's monitoring system;
- employees must permit NISA to receive duplicate account statements; and
- employees must submit transaction and holding reports quarterly.

NISA's Compliance Group monitors compliance with the policy. This process includes:

- reviewing employees' quarterly reports;
- comparing each employee's holdings and transactions to the brokerage statement; and
- comparing employee trades to client trades.

Timing of NISA's Employee Trades and Client Trades

Employees are generally not permitted to trade Reportable Securities at or about the same time NISA buys or sells the same or related securities for clients' accounts.

As noted above, employees must obtain prior approval before trading Reportable Securities. The relevant Portfolio Management Group director and a Compliance Officer must pre-approve all such trades. NISA's policy specifies that the Portfolio Management Group director can approve such a trade if NISA:

- did not trade the security or related security on the prior business day, and
- does not anticipate trading the security or related security on the requested day or the following business day.

Item 12 - Brokerage Practices

Brokerage Selection and Recommendations

The following describes the factors NISA considers when selecting or recommending brokers and assessing the reasonableness of the broker's compensation.

Fixed Income and Equity

When placing a trade with a broker, NISA considers the quality, quantity, nature and scope of the brokerage firm's professional services. NISA considers factors such as:

- ability to transact the desired volume
- price
- commission rate (if any)
- market impact
- responsiveness
- timeliness
- handling of confidential information
- settlement efficiency
- statistical and other research information that may be of either general or specific benefit to one or more clients

One of NISA's primary considerations for fixed income trades is the net price. NISA negotiates commissions on agency transactions, if any.

Futures and exchange-traded options

In order for NISA to execute trades in futures and exchange-traded options, the client must first establish an account with a Futures Commission Merchant ("FCM"). NISA may suggest FCMs to our clients. NISA considers the FCM's execution and settlement capabilities in the contemplated contracts to determine the FCMs to suggest to the client. The client determines the FCM(s) with whom it will establish an account. The FCMs that NISA suggests to clients may, but are not required or obligated to, provide research on futures and other products to NISA as part of their commitment to the general business relationship.

NISA seeks to negotiate the most favorable commission schedule available for our clients. NISA may direct trades to FCMs that charge higher commissions, if NISA believes that the FCMs obtain better net prices through better execution by limiting market impact.

Exchange-Traded Funds

Clients may direct NISA to gain exposure to certain benchmarks by purchasing specific exchange-traded funds or provide NISA an investment objective to meet through the purchase of exchange-traded funds. These funds charge an investment management fee in addition to the fee charged by NISA for its advisory services.

Over-the-Counter ("OTC") derivatives

In order for NISA to execute trades in OTC derivatives, the client must establish certain documents with a counterparty. The documents specify certain terms that apply to all transactions between the client and counterparty. Alternatively, the client may choose to use NISA's "umbrella" documents that NISA has established with certain counterparties. (Note: Umbrella documents are currently available only to ERISA clients.) In order to use NISA's umbrella documents, the client must provide certain certificates and other documents to NISA.

NISA may suggest potential counterparties to its clients. NISA's primary considerations in selecting such counterparties include:

- execution and settlement capabilities for the proposed strategy;
- collateral exchange requirements and procedures;
- documentation terms; and
- creditworthiness.

Limitations on Broker-Dealers, Counterparties or Futures Commission Merchants

Client Restrictions: For various reasons, clients may elect to impose certain restrictions on NISA's use of specific broker-dealers, even if those broker-dealers are approved for trading by NISA. If a client chooses to restrict the broker-dealers with which NISA is allowed to trade, the client may be left out of trades, could pay higher transaction costs or could receive less favorable net prices than would be the case if NISA were not restricted. Please note that NISA may not be able to accept a client's restriction for certain transaction in ERISA accounts.

Other Restrictions: In addition, NISA may, from time to time, create internal counterparty diversification objectives that NISA believes may benefit clients in certain situations. Based on these objectives, NISA may, in our sole discretion, omit an otherwise eligible counterparty from the counterparty selection process.

Research and Other Soft Dollar Benefits

NISA does not participate in soft dollar programs. NISA does not have any arrangement that specifies the amount of transactions for NISA to direct to any brokerage firm, FCM or counterparty (collectively, for this section, "Brokers"). NISA does not acquire any products or services through soft dollar benefits.

NISA receives certain research and services from Brokers as described below. If NISA did not receive these services from Brokers, it would incur additional costs. To mitigate the potential conflict of interest from such services, NISA has a Best Execution and Trade Order Management policy. The policy requires NISA's traders to seek to achieve the best combination of price and execution for our clients.

NISA receives market, statistical and research information provided by Brokers at no cost. This may include access to proprietary research databases, information websites and reports. The information NISA receives from Brokers may be of general or specific benefit to one or more clients.

Additionally, certain Brokers have dedicated telephone connections to NISA's office. NISA can only use these connections for calls to/from the applicable broker. NISA has no control over these connections other than to permit the broker to have them installed.

NISA's employees may attend conferences sponsored by Brokers. In such cases, NISA pays for the employee's transportation and lodging, but typically does not pay for conference fees, meals or entertainment.

Brokerage for Client Referrals

NISA does not receive client referrals in exchange for brokerage.

Directed Brokerage

If a client requests NISA to direct brokerage to a specific broker- dealer or broker- dealers, NISA will require the client to make certain representations and acknowledgements, including:

- the client may not obtain prices that are the most favorable at that time, and
- the client may be excluded from aggregated orders that NISA believes will benefit the client.

NISA will consider expressed client preferences and will periodically include those brokers when putting brokers in competition for trades.

Please note that NISA may not be able to accept a client's direction for certain transactions in ERISA accounts.

Trade Aggregation

NISA's traders determine whether it is in the clients' best interests to aggregate trades for multiple portfolios. NISA generally aggregates fixed income trades but does not aggregate equity or derivatives trades.

When NISA aggregates trades, it may receive less than the desired quantity. In some cases, it may not be practicable to allocate the trade pro rata across all accounts included in the trade order. In those cases, the Portfolio Management Group allocates the trade on a reasonable basis with the goal of treating all accounts equitably over the long term. NISA will generally give existing portfolios preference over newly funded portfolios when allocating a trade.

Terminated Portfolios or Portfolios in Transition

When NISA receives notice that a client wishes to terminate a portfolio, transition a NISA managed portfolio from one benchmark to another, or asks NISA to sell a large amount for securities to support a withdrawal, NISA may elect to sell bonds using a bidding process known as "all or none". Using this process, NISA submits a list of bonds that we intend to sell to one or more brokers. However, instead of offering the bonds individually, we offer them as a package. A broker who wants to purchase the bonds must take all the bonds on the list. In certain cases, one or more bonds may be carved out of the list and the list maybe re-submitted to the brokers again as a package. When using the "all or none" process, NISA may receive a higher or lower price for any single bond that is part of that package than if it sold that bond individually.

Trade Errors

A trade error is an incorrect transaction in a client's account. Examples of trade errors include: placing the order for the wrong client, duplicating a trade, buying or selling the incorrect quantity or security, or placing a buy order as a sell. Trade errors are an intrinsic risk in any investment process and will occur from time to time. NISA has trade processes and procedures designed to reduce the possibility of errors. NISA, in our sole discretion, will determine what constitutes a trade error.

NISA's general policy is to seek to identify and correct any trade errors promptly and in the best interests of the affected client(s), without disadvantaging our clients or benefiting NISA. NISA will compensate a client for a loss from a trade error if NISA determines that it did not meet the appropriate standard of care. The client's Investment Management Agreement usually specifies the applicable standard of

care. Alternatively, applicable law may determine the standard of care. Generally, the client may keep any gain from a trade error.

NISA will use reasonable methods to calculate the reimbursement due to the client, if any. NISA's process to correct trade errors may involve procedures required by applicable law. The appropriate correction for certain trade errors may be complex and require coordination with multiple parties. NISA's ability to correct trade errors promptly will be based on the specific circumstances of the error. NISA will not be responsible for any indirect, consequential or punitive damages.

Item 13 – Review of Accounts

Account and Financial Plan Review

Generally, each client chooses the benchmark, and specifies the risk and return objectives for its account. NISA does not review our clients' financial plans.

NISA reviews accounts as described below. The client determines the timing and frequency of meetings to review its account(s).

Fixed Income - The Fixed Income Portfolio Management Group monitors each portfolio for compliance with its investment guidelines. The group also monitors the active risk in each portfolio and reviews each portfolio's structure against its targets.

Equity - The Equity Portfolio Management Group monitors each portfolio for compliance with its investment objectives and guidelines.

Synthetic Exposure - The Derivatives Portfolio Management Group reviews and monitors each portfolio for compliance with its investment guidelines. The group also monitors the risk in each portfolio and reviews each portfolio's structure against its targets.

Reports

NISA typically provides quarterly reports for each managed account based on NISA's internal pricing. These reports generally include the following:

- portfolio performance comparison and attribution versus the benchmark;
- portfolio and benchmark characteristics; and
- portfolio holdings and market value.

NISA may provide additional reports at the client's request.

NISA does not provide legal, accounting, tax, recordkeeping or valuation services. NISA provides reports containing accounting or valuation information to clients with the understanding that NISA does not provide these services. Each client should compare and verify the information on NISA's reports with the information on the statements it receives from its recordkeeper.

NISA values securities and other financial instruments held in clients' accounts for its internal use, including our performance calculations. NISA provides reports containing such information to clients solely for the purpose of evaluating NISA as an investment manager.

Item 14 - Client Referrals and Other Compensation

NISA's only compensation is the fees that clients pay to NISA. The only compensation that NISA's employees receive for providing investment advice to NISA's clients is the compensation the employees receive from NISA. NISA does not pay any third party for client introductions or referrals.

NISA may manage assets for pension plans whose sponsors or affiliates provide services to other NISA clients and prospective clients. These sponsors include investment or pension plan consultants that may be able to influence a client to hire NISA. NISA does not directly compensate, provide reduced fees or provide other benefits to these plans or sponsors in exchange for recommendations or referrals. NISA discloses such relationships on its client list if the client permits NISA to do so. If the client is not included on NISA's client list, NISA will require the client or its affiliate to tell NISA that they have disclosed its relationship with NISA to any common client and to any prospective client of NISA before NISA and the prospective client enter into an Investment Management Agreement.

Item 15 - Custody

NISA does not custody client assets. If NISA received funds or securities intended for a client, NISA would promptly forward those funds or securities to the client or its custodian or return them to the sender.

Item 16 - Investment Discretion

NISA manages assets on a fully or partially discretionary basis. The client must execute an Investment Management Agreement before NISA will accept discretionary authority. Please refer to **Item 4 – Advisory Business** for information about the limitations a client may place on NISA's authority.

Item 17 – Voting Client Securities

The following is an overview of NISA's policies for voting client securities. NISA will provide a copy of its securities voting policies and procedures upon request. Clients may also obtain a record of votes cast for securities held in their account upon request.

NISA will vote client securities for a client unless the client retains such authority. NISA will accept a client's direction as to how to vote that client's securities only if the client has retained voting authority for that matter in its Investment Management Agreement. If the client wishes to direct NISA how to vote a proxy, it should contact NISA at the phone number on the cover page of this brochure. The client should follow a similar procedure if it wishes to discuss a particular proxy matter.

If the client retains authority to vote its proxies, the client must arrange with its custodian to receive proxies or other solicitations.

Proxy Voting Policy and Procedures

NISA votes proxies in the client's best interest. NISA's Proxy Voting Committee determines how to vote proxies. The Committee includes employees from our Portfolio Management groups, the Legal Group and the Compliance Group. The Committee specifies proxy-voting guidelines to reduce possible conflicts of interest. The Committee determines how to vote proxies not covered by the guidelines on a case-by-case basis. For case-by-case votes, the appropriate Portfolio Management group researches the issue and presents its findings and recommendation to the Committee. The Committee determines the appropriate course of action. If a case-by-case vote poses a material conflict of interest between NISA and its clients' accounts, NISA may contact the affected clients.

NISA may abstain from voting a proxy if:

- the economic effect on the client's interest or the value of the account holding is indeterminable or insignificant;
- the cost of voting the proxy outweighs the benefits; or
- the account no longer holds the security.

NISA uses a third party vendor for proxy voting and record keeping. The vendor votes proxies pursuant to NISA's guidelines or instructions. The vendor also maintains, reconciles and tracks proxy-voting records. The vendor may also provide non-recommendation research and analysis.

NISA does not rely on proxy voting recommendations from any third party. NISA may purchase research from third parties that include a recommendation.

Additional considerations for ERISA plans: NISA will not subordinate the economic interests of the plan's participants and beneficiaries to any unrelated objectives. NISA will not vote in favor of a proposal related to public policy matters, political activities or other social issues unless NISA reasonably believes that such a proposal is in the plan participants' and beneficiaries' best economic interests.

Other Security Elections

NISA may vote on other security matters as part of its investment discretion. These votes relate to economic decisions, such as tender offers, security exchanges, or consent to an indenture change, among others. NISA votes these matters solely in the best economic interests of each account.

Class Actions

NISA does not act, participate in, file or advise clients on securities class action suits. NISA does not seek out potential or pending class action suits. Upon request, NISA may provide the client or its designee with the account's holdings and/or transactions of a particular security and other supporting information.

Bankruptcy Claims

NISA does not participate in, file or advise clients with respect to bankruptcy claims. If an account holds a security or other obligation of an issuer that files for bankruptcy, NISA may sell or assign that interest to another party. If NISA cannot sell or assign the interest to another party or NISA believes that doing so is not in the client's best interest, NISA will notify the client.

Item 18 - Financial Information

NISA does not require or solicit prepayment of advisory fees.

NISA does not believe that we have any financial condition that will impair our ability to meet our contractual commitments to clients.

NISA has not been the subject of a bankruptcy petition in the past ten years.