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# Caywood-Scholl Capital Management LLC

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## Form ADV Part 2A Brochure

March 28, 2012

This brochure provides information about the qualifications and business practices of Caywood-Scholl Capital Management LLC ("Caywood-Scholl"). If you have any questions about the contents of this brochure, please contact us at (858) 452-3811. 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.

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

Caywood-Scholl is registered as an investment adviser under the Investment Advisers Act of 1940, as amended. Registration does not imply a certain level of skill or training.

## **ITEM 2. - MATERIAL CHANGES**

On July 28, 2010, the United State Securities and Exchange Commission published "Amendments to Form ADV" which amends the disclosure document that we provide to clients as required by SEC Rules. This brochure dated March 26, 2012 is the annual update of our brochure. The last update to this brochure was on April 13, 2011.

Effective March 1, 2012, Caywood-Scholl became a wholly owned subsidiary of RCM Capital Management LLC. Previously, Caywood-Scholl was a whole owned subsidiary of RCM US Holdings LLC. RCM Capital Management LLC is wholly owned by RCM US Holdings LLC.

### ITEM 3. - TABLE OF CONTENTS

Item 1. - Cover Page .....	i
Item 2. - Material Changes .....	ii
Item 3. - Table of Contents .....	iii
Item 4. - Advisory Business .....	1
Item 5. - Fees and Compensation .....	2
Item 6. - Performance-Based Fees and Side-by-Side Management .....	4
Item 7. - Types of Clients .....	5
Item 8. - Methods of Analysis, Investment Strategies and Risk of Loss .....	5
Item 9. - Disciplinary History .....	13
Item 10. - Other Financial Industry Activities and Affiliations .....	13
Item 11. - Code of Ethics, Participation or Interest in Client Transactions and Personal Trading .....	15
Item 12. - Brokerage Practices .....	18
Item 13. - Review of Accounts .....	21
Item 14. - Client Referrals and Other Compensation .....	22
Item 15. - Custody .....	22
Item 16. - Investment Discretion .....	22
Item 17. - Voting Client Securities .....	23
Item 18. - Financial Information .....	24
Item 19. - Privacy Notice .....	24

#### **ITEM 4. - ADVISORY BUSINESS**

Caywood-Scholl Capital Management LLC ("Caywood-Scholl") has been in operation since 1986, either directly or through its predecessors.

As of December 31, 2011, Caywood-Scholl had \$1.28 billion in discretionary assets under management. This amount reflects our total assets under management.

Caywood-Scholl is actively engaged in providing investment management and investment advisory services to institutions, collective investment vehicles (including mutual funds), individual clients, and collateralized debt obligations (including but not limited to Collateralized Loan Obligations, Collateralized Bond Obligations, and Synthetic Credit Default Swaps). The elements of such services may include one or more of the following:

1. Determining an appropriate investment strategy, consistent with the investment objectives, guidelines, and restrictions established by the client (for example, for fixed income portfolios the issuer, sector, credit quality, coupon, duration and maturity are among the range of issues that would be suitable), and reviewing and modifying such strategy through meetings and consultations with the client or its agents from time to time.
2. Implementing the investment strategy by executing portfolio transactions as needed.
3. Providing information and instructions to the custodian (or trustee) of the client's account so that transactions for the account are settled in an accurate and timely manner, and reconciling its records with those of the custodian (or trustee) on a periodic basis.
4. Valuing securities and other financial instruments held in the portfolio.
5. Furnishing reports to the client on a monthly basis concerning account activity, strategy and performance.

Caywood-Scholl does not provide all of the services listed above to all clients.

Caywood-Scholl offers investment management and investment advisory services for non-investment grade accounts and to a limited extent to investment grade accounts. In most instances, client accounts are managed on a fully discretionary basis, subject to that client's investment objectives, guidelines, and restrictions.

Caywood-Scholl is wholly owned by RCM Capital Management LLC ("RCM"). RCM is a Delaware limited liability company that is wholly owned by RCM US Holdings LLC which in turn is owned by Allianz Asset Management Aktiengesellschaft ("AAM"). AAM acts as a holding company for the asset management businesses of and is owned by Allianz SE ("Allianz"). Allianz's principal executive offices are located at Koeniginstrasse 28, D-80802, Munich, Germany. Allianz acts as a reinsurance company and a holding company for the Allianz Group. The Allianz Group is one of the world's leading financial service providers, offering insurance and asset management products and services through property-casualty insurance, life and health insurance, and financial services business segments. Allianz engages in financial services operations through its subsidiaries with approximately 150,000 employees in over 70 countries around the world.

Caywood-Scholl cannot guarantee or assure clients that your investment objective(s) will be achieved. Caywood-Scholl does not guarantee the future performance of any client's account or any specific level of performance, the success of any investment decision or strategy that Caywood-Scholl may use, or the success of our overall management of any account. The

investment decisions Caywood-Scholl makes for client accounts are subject to various market, currency, economic, political and business risks, and the risk that investment decisions will not always be profitable. Many of these risks are discussed in Item 8 below, which clients should review carefully before deciding to engage Caywood-Scholl's services.

## **ITEM 5. - FEES AND COMPENSATION**

Fees may be calculated using the following methods:

1. Advance. The fee for each three-month period is the amount obtained by multiplying the market value of cash and securities in the portfolio (including amounts accrued) as of the close of business on the last day of the preceding three-month period by one-fourth of the applicable annual fee rate(s).
2. Average Month-End Assets—Arrears. The fee for each three-month period is the amount obtained by computing the average market value of cash and securities in the portfolio (including amounts accrued) as of the close of business on the last day of each month of the three-month period and multiplying the resultant average market value by one-fourth of the applicable annual fee rate(s).
3. Collateralized Product Management Fee (Structured Products). The fee for each six-month period is typically obtained by multiplying the aggregate principal amount at the end of each payment period by one-half of the applicable annual fee rate(s).

If a client elects payment of fees under the advance method of calculation, in the event of termination, any management fees paid in advance will be prorated as of the date of termination and the unearned portion thereof will be returned to the client.

Other methods of calculation also may be available, where appropriate or upon a client's request.

Caywood-Scholl's fees ordinarily are calculated by Caywood-Scholl, based on Caywood-Scholl's valuation of the assets in the client's portfolio. In certain instances, Caywood-Scholl and the client may agree that fees should be calculated based upon the custodian's valuation of the assets in the client's portfolio.

Caywood-Scholl's standard institutional fee schedules are as follows:

### **High Yield Corporate Bond Portfolios:**

**Minimum Account Size: \$5,000,000**

Minimum Fee: \$25,000

\$5-\$50 million	50 bp
\$50-\$100 million	45 bp
\$100 million and up	negotiable

### **High Yield (BB) Corporate Bond Portfolios:**

**Minimum account size: \$5,000,000**

Minimum Fee: \$25,000

\$5-\$50 million	50 bp
\$50-\$100 million	45 bp
\$100 million and up	negotiable

### **Collateralized Products:**

Each collateralized structure's minimum account size and management fees are individually negotiated.

### **Short Duration Portfolios:**

#### **Minimum account size: \$10,000,000**

Minimum Fee: \$25,000

\$5-\$50 million	50 bp
\$50-\$100 million	45 bp
\$100 million and up	negotiable

Different fee schedules may be available for accounts with higher amounts of assets under management.

As explained in Item 4 above, Caywood-Scholl also participates as an investment adviser in wrap-fee programs. Wrap-fee clients usually receive a brochure detailing the wrap-fee program from the Program Sponsor prior to their selection of Caywood-Scholl as sub-adviser. Fees and features of each program offered by the various Program Sponsors vary and therefore, wrap-fee clients should consult the Program Sponsor's brochure for the specific fees and features applicable to their program. Generally, the Program Sponsor will pay a portion of the wrap-fee received from the client to Caywood-Scholl for investment management services provided to the Program Sponsor. In certain cases, the Program Sponsor monitors and evaluates performance, and executes the client's portfolio transactions. The Program Sponsor may provide custodial services, confirmation of transactions and monthly statements for the clients. Caywood-Scholl does not perform due diligence on the Program Sponsor as it is the responsibility of the Program Sponsor that chooses Caywood-Scholl as sub-adviser. Clients of the Program Sponsor are responsible for conducting their own review of the Program Sponsor.

Caywood-Scholl generally requires \$3 million minimum assets to participate as an investment adviser in a wrap-fee program. Caywood-Scholl's compensation from the Program Sponsors vary, but is generally between .40% and .50% of assets under management in the program, dependent upon the style of management and the size of the program. In some cases, fees may be negotiated. Trade executions are generally executed with outside brokers or dealers and generally not with the Program Sponsor. The fees for a managed account/wrap fee program may result in higher cost than a client may otherwise incur by paying Caywood-Scholl's standard fees and negotiating separate arrangements for trade execution, custodial and consulting services.

In addition, and to the extent permitted by law, Caywood-Scholl may enter into other performance-related fee arrangements, provided that all applicable regulatory requirements are met. Performance-related fee arrangements vary depending on the particular client's needs and individual circumstances.

It is Caywood-Scholl's general policy to charge fees to clients in accordance with the fee schedule in effect at the time the client first entered into an investment management or

investment advisory relationship with Caywood-Scholl. However, in certain circumstances, fees may be subject to negotiation, and fees may be modified for particular clients. The reasons for modifications may include, without limitation, the type of product provided, the complexity and level of service provided, the number of different accounts and the total assets under management for that client and related clients, the particular type of client, constraints imposed by substantial potential capital gains, required attendance at client meetings, other services provided by the adviser, other administrative services provided, or other circumstances or factors that we deem relevant. A different fee schedule may apply if an account receives more limited services than full discretionary investment management, or if an account has specialized investment objectives, guidelines and restrictions. Certain accounts of persons affiliated with Caywood-Scholl may be managed without fees.

When Caywood-Scholl manages multiple accounts for a particular client, or for a related group of clients, fee calculation may be based on the total assets under management. Assets invested in collective investment vehicles are not considered for these purposes. If only non-advisory services are provided, and if the account is related to other accounts, Caywood-Scholl may perform the non-advisory services as an accommodation.

Holdings in a client's account may include securities of investment companies or other collective investment vehicles that we advise. Those investment companies or collective investment vehicles charge a separate management fee, as disclosed in their relevant governing or offering documents. See Item 10 below for more information.

To the extent that your assets are invested in a cash investment fund of the client's trustee or custodian, the client should be aware that the trustee or custodian may also charge separate management or transactional fees with respect to such assets.

A client may choose to be billed directly for fees, or may authorize us to directly deduct fees from your account. If Caywood-Scholl can deduct fees directly from a client's account, a client's custodian should send a quarterly statement directly to the client, showing transactions in the account, including Caywood-Scholl's fees. Caywood-Scholl will receive paper or electronic copies of the custodian's statements. Caywood-Scholl urges clients to carefully review these statements, where applicable, and compare the official custodial records to any account statements Caywood-Scholl may send to its clients.

## **ITEM 6. - PERFORMANCE-BASED FEES AND SIDE-BY-SIDE MANAGEMENT**

As noted in Item 5, we may enter into performance-related fee arrangements. We manage accounts that pay a performance-related fee and accounts that pay asset-based fees. Performance-related fee arrangements vary depending on the particular client's needs and individual circumstances. Performance-related fees may create an incentive for us to make investments that are riskier or more speculative than would be the case in the absence of a performance-related fee arrangement. They may also create an incentive for us to favor certain accounts over others. In addition, under certain circumstances, we may receive compensation under a performance-related fee arrangement that is larger than it otherwise might receive under asset-based fee arrangements.

We have written compliance policies and procedures designed to mitigate or manage these conflicts of interest, including policies and procedures to seek fair and equitable allocation of investment opportunities and trades (see Item 12 below) among all client accounts. There is no guarantee that any such policies or procedures will cover every situation in which a conflict of interest arises. Senior investment personnel review weekly performance reports on all of our

client accounts, including those that pay performance-related fees and those that do not, and review the reports for, among other things, potential performance differences between these accounts. The reviews are part of the way we manage potential conflicts that could create incentives for our investment personnel to favor one account over another. There is no guarantee that any such policies or procedures will cover every situation in which a conflict of interest arises.

## **ITEM 7. - Types of Clients**

Caywood-Scholl provides investment management and investment advisory services to, among others, partnerships, collateralized debt obligations (including but not limited to Collateralized Loan Obligations, Collateralized Bond Obligations, and Synthetic Credit Default Swaps), trusts, collective investment vehicles (including mutual funds) and managed account programs. Some of these entities receive Caywood-Scholl's services on a sub-advisory basis.

Caywood-Scholl generally requires \$5 million minimum assets for the establishment of an institutional investment management or investment advisory account. Exceptions may be made if circumstances warrant. Individual accounts for private clients may be opened at smaller asset levels. Accounts also may be opened at smaller asset levels if growth is expected within a reasonable time frame, if a relationship exists between that account and an existing account, if an account is one of several accounts referred to Caywood-Scholl by the same person or entity or if an account is part of an existing investment advisory program.

Clients generally are required to enter into a written investment management or investment advisory agreement prior to the establishment of the client's account.

Caywood-Scholl will not enter into an investment management or investment advisory relationship with any prospective client whose investment objectives, guidelines, and restrictions are deemed to be incompatible with Caywood-Scholl's basic investment philosophy or strategies, or if the prospective client's investment objectives, guidelines, and restrictions are deemed to be unduly restrictive.

## **ITEM 8. - METHODS OF ANALYSIS, INVESTMENT STRATEGIES AND RISK OF LOSS**

### **METHODS OF ANALYSIS**

Caywood-Scholl utilizes a proprietary credit scoring system that scores and tallies approximately sixty different credit metrics within three qualitative and three quantitative categories. This analytical tool helps the portfolio management team to identify a company's strengths and weaknesses, and to reveal potential risk factors. In addition to the company reports and the credit scoring system the analysts perform a relative value assessment where relevant. Caywood-Scholl also subscribes to major broker/dealer systems that provide specific security credit and pricing information.

Caywood-Scholl may also utilize research produced by Grassroots<sup>sm</sup> Research, a division within the Allianz Global Investors group of companies. Grassroots<sup>sm</sup> Research augments traditional Wall Street research methods by seeking to verify (or disprove) market information pertaining to various companies and/or industries and by identifying and analyzing marketplace trends. Caywood-Scholl believes that Grassroots<sup>sm</sup> Research may provide a valuable complement to its traditional research methodology.



## **INVESTMENT STRATEGIES**

Caywood-Scholl applies a rigorous research process before selecting bonds for clients' portfolios. Emphasis is placed on macroeconomic, industry, and detailed credit research to help identify suitable creditworthy investments with attractive valuations. Caywood-Scholl's buy discipline compares credit assessment with total return opportunities and generally selects those securities and syndicated bank loans with the best "relative value." Caywood-Scholl will typically sell a security when: 1) an industry's financial or economic outlook deteriorates, 2) a company's financial results significantly underperform Caywood-Scholl's cash flow projections, 3) there is an unexplainable or fundamental reason for an extreme drop in the company's common stock price, or 4) a bond or syndicated bank loan becomes unattractive due to price appreciation relative to other issues including among other things, better opportunities.

### **High Yield Corporate Bond Product**

Caywood-Scholl believes that superior risk-adjusted returns for non-investment grade portfolios can be achieved over time by protecting against the downside, through typically investing in upper-tier (BB and high B rated) high yield bonds, while taking advantage of market inefficiencies to identify undervalued securities.

### **High Yield (BB) Corporate Bond Product**

Caywood-Scholl believes that superior risk-adjusted returns for non-investment grade (BB rated) portfolios can be achieved over time by protecting against the downside, while taking advantage of market inefficiencies to identify undervalued securities.

### **Short Duration Product**

Caywood-Scholl's Short Duration High Yield product includes those portfolios with investment guidelines mandating weighted average portfolio durations of 3 years or less. Portfolio holdings will be comprised of highly liquid bonds or bank loans. Portfolio construction emphasizes BB and single B issuers whose debt has a high likelihood of being called or maturing within 2 years. Issuer concentration is typically higher than in our High Yield (BB) Corporate Bond product and typically ranges between 1% to 3%, but may be as high as 10%. Portfolios may include convertible bonds, zero coupons and Yankees. All short duration high yield portfolio are measured against client specific benchmarks.

### **Structured Product**

Caywood-Scholl believes that superior risk-adjusted returns for structured products can be achieved over time by providing investment management or advice to those collateralized structures that have collateral investment parameters consistent with Caywood-Scholl's investment philosophy and process. Accordingly, Caywood-Scholl emphasizes the preservation of capital within the collateralized structure by minimizing the principal risk in the collateral pool. On a selective basis, investing within the investment parameters of the structure's indenture, Caywood-Scholl will typically seek to take advantage of market inefficiencies by identifying undervalued securities and/or syndicated bank loans.

## **TYPES OF INVESTMENTS**

Caywood-Scholl provides investment management and investment advisory services with respect to primarily fixed-income instruments but to a limited extent equity instruments. Some of these instruments include, but are not limited to, exchange-traded and over-the-counter securities; foreign securities; American Depositary Receipts and similar depositary instruments; securities issued by investment companies (and similar foreign issuers); privately placed securities in public or private entities; securities that are eligible for resale pursuant to SEC Rule 144A; commercial paper; securities issued by the United States and foreign governments and municipalities; currency exchange transactions; purchase of when-issued and delayed delivery securities; purchase and sale of options contracts with respect to interest rates, securities, and financial indexes; forward currency contracts and swap and related cap, floor and collar transactions with respect to interest rates; and other derivative instruments. Particular clients may receive investment management or investment advisory services with respect to one or more of the foregoing categories of instruments.

Caywood-Scholl also offers investment advice on sovereign debt securities and collateralized debt obligations, including but not limited to collateralized bond obligations, collateralized loan obligations and synthetic collateralized debt obligations involving credit default swaps.

**INVESTING IN SECURITIES INVOLVES RISK OF LOSS AND THAT CLIENTS SHOULD BE PREPARED TO BEAR:**

**General.** The value of your account changes with the value of its investments. Many factors can affect those values. Your account may be subject to additional risks other than those described below because the types of investments in your account can change over time. There is no guarantee that we will be able to achieve your investment objective. It is possible to lose money by investing.

**Common Stocks and Other Equity Securities.** Common stock represents an ownership interest in a company. Common stock may take the form of shares in a corporation, membership interests in a limited liability company, limited partnership interests, or other forms of ownership interests. The value of a company's stock may fall as a result of factors directly relating to that company, such as decisions made by its management or lower demand for the company's products or services. A stock's value may also fall because of factors affecting not just the company, but also companies in the same industry or sector, or in a number of different industries or sectors, such as increases in production costs. The value of a company's stock may also be affected by changes in financial markets that are relatively unrelated to the company or its industry, such as changes in interest rates or currency exchange rates or adverse circumstances involving the credit markets. In addition, a company's stock generally pays dividends only after the company invests in its own business and makes required payments to holders of its bonds, other debt and preferred stock. For this reason, the value of a company's stock will usually react more strongly than its bonds, other debt and preferred stock to actual or perceived changes in the company's financial condition or prospects.

Stocks of smaller companies may be more vulnerable to adverse developments than those of larger companies. Stocks of companies that we believe are fast-growing may trade at a higher multiple of current earnings than other stocks. The value of these stocks may be more sensitive to changes in current or expected earnings than the values of other stocks. Seeking earnings growth may result in significant investments in sectors that may be subject to greater volatility than other sectors of the economy.

Companies that we believe are undergoing positive change and whose stock we believe is undervalued by the market may have experienced adverse business developments or may be subject to special risks that have caused their stocks to be out of favor. If our assessment of a company's earnings growth or other prospects is wrong, or if our judgment of how other investors will value the company is wrong, then the price of the company's stock may fall or may not approach the value that we have placed on it.

Different types of equity securities provide different voting and dividend rights and priority in the event of the bankruptcy and/ or insolvency of the issuer. In addition to common stocks, equity securities include, without limitation, preferred stocks, convertible securities and warrants. Equity securities other than common stocks are subject to many of the same risks as common stocks, although possibly to different degrees. We may invest in, and gain exposure to, common stocks and other equity securities through purchasing depositary receipts.

Equity-related instruments are securities and other instruments, including derivatives such as equity-linked securities, whose investment results are intended to correspond generally to the performance of one or more specified equity securities or of a specified equity index or analogous "basket" of equity securities. To the extent that an account invests in equity-related instruments whose return corresponds to the performance of a non-U.S. securities index or one or more non-U.S. equity securities, investing in these equity-related instruments will involve risks similar to the risks of investing in non-U.S. securities. In addition, a client's account bears the risk that the issuer of an equity-related instrument may default on its obligations under the instrument. Equity-related instruments are often used for many of the same purposes as, and share many of the same risks with, other derivative instruments such as swap agreements, participation notes and zero-strike warrants and options, as discussed below. Equity-related instruments may be considered illiquid.

**Credit Risk.** Client accounts may be subject to credit risk. This is the risk that the account could lose money if the issuer or the guarantor of a fixed income security (including a security purchased with securities lending cash collateral, if your account engages in securities lending), or the counterparty to a derivatives contract, repurchase agreement or a loan of portfolio securities, is unable or unwilling, or is perceived (whether by market participants, ratings agencies, pricing services or otherwise) as unable or unwilling, to make timely principal and/or interest payments, or to otherwise honor its obligations. Securities are subject to varying degrees of credit risk, which are often reflected in their credit ratings.

**Derivatives Risk.** Derivatives are financial contracts whose value depends on, or is derived from, the value of an underlying asset, reference rate or index. We discuss below some of the types of derivatives that client accounts may use. Client accounts may (but are not required to) use derivatives as part of a strategy designed to reduce exposure to other risks, such as risks associated with changes in interest rates or currency risk. Client accounts may also use derivatives for leverage, which increases opportunities for gain but also involves greater risk of loss due to leveraging risk, and to gain exposure to issuers, indices, sectors, currencies and/or geographic regions. A client account's use of derivative instruments involves risks different from, or possibly greater than, the risks associated with investing directly in securities and other traditional investments, and the use of certain derivatives may subject an account to the potential for unlimited loss. To the extent an account writes call options on individual securities that it does not hold in its portfolio ("naked" call options), it is subject to the risk that a liquid market for the underlying security may not exist at the time an option is exercised or when the account otherwise seeks to close out an option position; naked call options have speculative characteristics and the potential for unlimited loss. Derivatives also involve the risk of mispricing

or improper valuation, the risk of ambiguous documentation, and the risk that changes in the value of the derivative may not correlate perfectly with the underlying asset, rate or index. In addition, an account's use of derivatives may increase or accelerate the amount of taxes payable by the account holder. By investing in a derivative instrument, an account could lose more than the principal amount invested. Also, suitable derivative transactions may not be available in all circumstances and there can be no assurance that we will engage in these transactions to reduce exposure to other risks when that would be beneficial or that, if used, these strategies will be successful.

Finally, federal legislation has been recently enacted in the U.S. that provides for new clearing, margin, reporting and registration requirements for participants in the derivatives market. While the ultimate impact is not yet clear, these changes could restrict and/or impose significant costs or other burdens upon an account's participation in derivatives transactions.

Examples of derivative instruments that we may buy, sell or otherwise utilize include, among others, option contracts, futures contracts, options on futures contracts, forward contracts, warrants and swap agreements, including swap agreements with respect to securities indexes. An account may purchase and sell (write) call and put options on securities, securities indexes and foreign currencies. An account may purchase and sell futures contracts and options thereon with respect to securities, securities indexes, interest rates and foreign currencies.

The following provides further discussion of risks relating to derivative instruments that we may use, subject to any restrictions applicable to a particular account.

- *Management Risk.* Derivative products are highly specialized instruments that require investment techniques and risk analyses different from those associated with stocks and bonds. The use of a derivative requires an understanding not only of the underlying instrument but also of the derivative itself, without the benefit of observing the performance of the derivative under all possible market conditions.
- *Counterparty Credit Risk.* The use of a derivative instrument involves the risk that a loss may be sustained as a result of the failure of another party to the contract (usually referred to as a "counterparty") to make required payments or otherwise comply with the contract's terms.
- *Liquidity Risk.* Liquidity risk exists when a particular derivative instrument is difficult to purchase or sell. If a derivative transaction is particularly large or if the relevant market is illiquid (as is the case with many privately negotiated derivatives), it may not be possible to initiate a transaction or liquidate a position at an advantageous time or price.
- *Leveraging Risk.* Because many derivatives have a leverage component, adverse changes in the value or level of the underlying asset, reference rate or index can result in a loss substantially greater than the amount invested in the derivative itself. Certain derivatives have the potential for unlimited loss, regardless of the size of the initial investment. When an account uses derivatives for leverage, investments will tend to be more volatile, resulting in larger gains or losses in response to market changes. Leveraging risk may be especially applicable to accounts that may write uncovered (or "naked") options.

- **Basis Risk.** Basis risk is the risk that the value of a derivative instrument does not react in parallel with the value of the underlying security.
- **Lack of Availability.** Because the markets for certain derivative instruments (including markets located in non-U.S. countries) are relatively new and still developing, suitable derivatives transactions may not be available in all circumstances for risk management or other purposes. Upon the expiration of a particular contract, we may wish to retain an account's position in the derivative instrument by entering into a similar contract, but may be unable to do so if the counterparty to the original contract is unwilling to enter into the new contract and no other suitable counterparty can be found. There is no assurance that we will engage in derivatives transactions at any time or from time to time. An account's ability to use derivatives may also be limited by certain regulatory and tax considerations.
- **Market and Other Risks.** Like most other investments, derivative instruments are subject to the risk that the market value of the instrument will change in a way detrimental to the account's interest. If we incorrectly forecast the values of securities, currencies or interest rates or other economic factors in using derivatives, the account might have been in a better position if we had not entered into the transaction at all. While some strategies involving derivative instruments can reduce the risk of loss, they can also reduce the opportunity for gain or result in losses by offsetting favorable price movements in other investments. The account may also have to buy or sell a security at a disadvantageous time or price.

Other risks in using derivatives include the risk of mispricing or improper valuation of derivatives. Many derivatives, in particular privately negotiated derivatives, are complex and illiquid and thus often valued subjectively. Improper valuations can result in increased cash payment requirements to counterparties or a loss of value to the account. Also, the value of derivatives may not correlate perfectly, or at all, with the value of the assets, reference rates or indexes they are designed to closely track. In addition, our use of derivatives may accelerate and/or increase the amount of taxes payable. Derivative instruments are also subject to the risk of ambiguous documentation.

There are significant differences between the securities and derivatives markets that could result in an imperfect correlation between these markets, causing a given transaction not to achieve the intended result. A decision as to whether, when and how to use derivatives involves the exercise of skill and judgment, and even a well-conceived transaction may be unsuccessful to some degree because of market behavior or unexpected events. In addition, derivatives strategies that are successful under certain market conditions may be less successful or unsuccessful under other market conditions.

**Emerging Markets Risk.** Client accounts that invest in non-U.S. securities may experience more rapid and extreme changes in value than a portfolio that invests exclusively in securities of U.S. issuers or securities that trade exclusively in U.S. markets. Non-U.S. investment risk may be particularly high to the extent that the account invests in emerging market securities, that is, securities of issuers tied economically to countries with developing economies. See "Non-US Investment Risk" below. These securities may present market, credit, currency, liquidity, legal, political, technical and other risks different from, or greater than, the risks of investing in developed countries. In addition, the risks associated with investing in a narrowly-defined

geographic area are generally more pronounced with respect to investments in emerging market countries. An account may also be subject to Emerging Markets Risk if it invests in derivatives or other securities or instruments whose value or returns are related to the value or returns of emerging market securities.

**Focused Investment Risk.** Focusing an account's investments in a small number of issuers, industries, foreign currencies or regions increases risk. If an account invests a significant portion of its assets in a relatively small number of issuers, it may have more risk because changes in the value of a single security or the impact of a single economic, political or regulatory occurrence may have a greater adverse impact on the account's value. Some of those issuers also may present substantial credit or other risks. In addition, the account may be subject to increased risk to the extent it focuses its investments in securities denominated in a particular foreign currency or in a narrowly-defined geographic area outside the United States. Similarly, if the account focuses its investments in a certain type of issuer, it will be particularly vulnerable to events affecting that type of issuer. Also, the account may have greater risk to the extent it invests a substantial portion of its assets in a group of related industries (or "sectors"). The industries comprising any particular sector and investments in a particular foreign currency or in a narrowly-defined geographic area outside the United States may share common characteristics, are often subject to similar business risks and regulatory burdens, and react similarly to economic, market, political or other developments. An account may from time to time invest a substantial portion of its assets in certain sectors, and during these periods will be subject to a greater extent to the risks associated with these sectors.

**Issuer Risk.** The value of a security may decline for a number of reasons that directly relate to the issuer, such as management performance, financial leverage and reduced demand for the issuer's goods or services, as well as the historical and prospective earnings of the issuer and the values of its assets.

**Leveraging Risk.** Leverage, including borrowing, will cause the value of an account to be more volatile than if the account did not use leverage. This is because leverage tends to exaggerate the effect of any increase or decrease in the value of the account's portfolio securities. We may engage in transactions or purchase instruments that give rise to forms of leverage. These transactions and instruments may include, among others, the use of reverse repurchase agreements and other borrowings, the investment of collateral from loans of portfolio securities, or the use of when-issued, delayed-delivery or forward commitment transactions. The use of derivatives and short sales may also involve leverage. The use of leverage may cause an account to liquidate portfolio positions when it would not be advantageous to do so in order to satisfy its obligations. Certain types of leveraging transactions, such as short sales that are not "against the box," could theoretically be subject to unlimited losses in cases where the account, for any reason, is unable to close out the transaction. In addition, to the extent an account borrows money, interest costs on these borrowings may not be recovered by any appreciation of the securities purchased with the borrowed amounts and could exceed the account's investment returns, resulting in greater losses.

**Liquidity Risk.** Client accounts may be subject to liquidity risk. Liquidity risk exists when particular investments are difficult to purchase or sell, possibly preventing the account from selling these illiquid securities at an advantageous time or price, or possibly requiring the account to dispose of other investments at unfavorable times or prices in order to satisfy its obligations. Additionally, the market for certain investments may become illiquid under adverse market or economic conditions independent of any specific adverse changes in the conditions of a particular issuer. In these cases, the account, due to the difficulty in purchasing and selling

securities or instruments, may be unable to achieve its desired level of exposure to a certain issuer or sector. To the extent that the account invests in securities of companies with smaller market capitalizations, non-U.S. securities, Rule 144A securities, derivatives or securities with substantial market and/or credit risk, it will tend to have the greatest exposure to liquidity risk.

**Management Risk.** Client accounts may be subject to management risk because they are actively managed investment portfolios. We will apply investment techniques and risk analyses in making investment decisions for an account, but there can be no guarantee that these will produce the desired results. An account is also subject to the risk that deficiencies in our internal systems or controls or those of another service provider will cause losses for the account or hinder operations. For example, trading delays or errors (both human and systemic) could prevent the account from purchasing a security expected to appreciate in value. Additionally, legislative, regulatory, or tax developments may affect the investment techniques available to us in connection with managing the account and may also adversely affect the ability of an account to achieve its investment objective.

**Market Risk.** The market price of securities owned by an account may go up or down, sometimes rapidly or unpredictably. Where an account intends to invest substantially in common stocks and/or other equity securities, a principal risk of investing is that the investments in the portfolio will decline in value due to factors affecting securities markets generally or particular industries or sectors represented in those markets. The values of securities may decline due to general market conditions that are not specifically related to a particular company, such as real or perceived adverse economic conditions, changes in the general outlook for corporate earnings, changes in interest or currency rates, adverse changes to credit markets or adverse investor sentiment generally. They may also decline due to factors that disproportionately affect a particular industry, group of related industries or sector, such as labor shortages or increased production costs and competitive conditions within an industry or sector. The market price of fixed income securities, as well as equity securities and other types of investments, may decline due to changes in interest rates or other factors affecting the applicable markets generally. Equity securities generally have greater price volatility than fixed income securities. During a general downturn in securities markets, multiple asset classes may decline in value simultaneously.

**Smaller Company Risk.** The general risks associated with investing in equity securities and liquidity risk are particularly pronounced for securities of companies with smaller market capitalizations. These companies may have limited product lines, markets or financial resources or they may depend on a few key employees. Securities of smaller companies may trade less frequently and in lesser volume than more widely held securities and their values may fluctuate more sharply than other securities. They may also trade in the over-the-counter market or on a regional exchange, or may otherwise have limited liquidity. Companies with medium-sized market capitalizations also have substantial exposure to these risks.

**Turnover Risk.** A change in the securities held by an account is known as “portfolio turnover.” Higher portfolio turnover involves correspondingly greater expenses to the account, including brokerage commissions or dealer mark-ups and other transaction costs on the sale of securities and reinvestments in other securities. These sales may also result in realization of taxable capital gains, including short-term capital gains, and may adversely impact the account’s after-tax returns. The trading costs and tax effects associated with portfolio turnover may adversely affect the account’s performance.

The foregoing is only a summary of certain risks of investing in the securities and instruments that we use. Specialized mandates may have particular risks not described above, and you should have a full understanding of the risks applicable to your account before engaging our services.

## **ITEM 9. - DISCIPLINARY HISTORY**

This item requires Caywood-Scholl to disclose any legal or disciplinary events material to a client's or prospective client's evaluation of Caywood-Scholl's business or the integrity of Caywood-Scholl's management. Caywood-Scholl has no information to report for this item.

## **ITEM 10. - OTHER FINANCIAL INDUSTRY ACTIVITIES AND AFFILIATIONS**

Caywood-Scholl is part of Allianz Global Investors. Allianz Global Investors is the marketing name for a global asset management business that operates through affiliated entities throughout the world. Those affiliated entities include Allianz Global Investors Distributors LLC, an SEC-registered broker-dealer and the following SEC-registered investment advisers: Allianz Global Investors Europe GmbH, Allianz Global Investors Capital LLC, Allianz Global Investors Fund Management LLC, Allianz Global Investors Managed Accounts LLC, Allianz Global Investors Solutions LLC, RCM Capital Management LLC, NFJ Investment Group LLC and RCM Asia Pacific Limited.

Caywood-Scholl is also related, through common ownership or otherwise, to PIMCO Investments LLC, an SEC-registered broker-dealer; and Pacific Investment Management Company LLC and Pallas Investment Partners, L.P., each an SEC-registered investment adviser.

In addition, Caywood-Scholl is related through common ownership or otherwise to a number of foreign investment advisers including: ADIG Fondsvertrieb AG and Allianz Treuhand GmbH, each a Munich-based investment adviser regulated by the Bundesanstalt für Finanzdienstleistungsaufsicht; Allianz Global Investors Kapitalanlagegesellschaft mbH, a Frankfurt-based investment adviser regulated by the Bundesanstalt für Finanzdienstleistungsaufsicht; Allianz Global Investors Capital Limited, Allianz Global Investors (UK) Ltd., RCM (UK) Ltd., and PIMCO Europe Ltd., each a London-based investment adviser regulated by the Financial Services Authority; Allianz Global Investors France S.A., a Paris-based investment adviser regulated by the Autorité des Marchés Financiers; Allianz Global Investors Ireland Ltd., and PIMCO Global Advisors (Ireland) Limited, each a Dublin-based investment adviser regulated by the Irish Financial Services Regulatory Authority; Allianz Global Investors Luxembourg S.A., PIMCO Luxembourg IV S.A., a Luxembourg-based investment adviser regulated by the Commission de Surveillance du Secteur Financier; Allianz Global Investors Italia SGR S.p.A., a Milan-based investment adviser regulated by the Commissione Nazionale per le Società e la Borsa; Allianz Global Investors Hong Kong Ltd., and PIMCO Asia Limited, each a Hong Kong-based investment adviser regulated by the Hong Kong Securities and Futures Commission; RCM Asia Pacific Limited, a Hong Kong-based investment adviser regulated by the Securities and Futures Commission and the Korea Financial Services Commission of South Korea; RCM Japan Co. Ltd., and PIMCO Japan Ltd., each a Tokyo-based investment adviser regulated by the Japanese Financial Services Authority; Allianz Global Investors Korea Ltd., a Seoul-based investment adviser regulated by the Korea Financial Services Commission of South Korea; Allianz Global Investors Singapore Ltd., and PIMCO Asia Pte Ltd., each a Singapore-based investment adviser regulated by the Monetary Authority of Singapore; Allianz Global Investors Taiwan Ltd., a Taipei-based investment adviser regulated



by the Taiwan Securities and Futures Bureau; RCM Capital Management PTY Ltd., and PIMCO Australia Pty Ltd., each a Sydney-based investment adviser regulated by the Australian Securities and Investments Commission; Allianz Global Investors Nominee Services Ltd., a Grand Cayman (Cayman Islands)-based investment adviser regulated by the Cayman Islands Monetary Authority; and PIMCO Canada Corp., a Toronto, Canada based investment adviser regulated by the Ontario Securities Commission.

As discussed in Item 4, Caywood-Scholl is wholly owned by RCM Capital Management LLC (“RCM”). RCM is a Delaware limited liability company that is wholly owned by RCM US Holdings LLC (“US Holdings”) which in turn is owned by Allianz Asset Management Aktiengesellschaft (“AAM”). AAM acts as a holding company for the asset management businesses of and is owned by Allianz SE (“Allianz”). Allianz’s principal executive offices are located at Koeniginstrasse 28, D-80802, Munich, Germany. Allianz acts as a reinsurance company and a holding company for the Allianz Group. The Allianz Group is one of the world’s leading financial service providers, offering insurance and asset management products and services through property-casualty insurance, life and health insurance, and financial services business segments. Allianz engages in financial services operations through its subsidiaries with approximately 150,000 employees in over 70 countries around the world.

Allianz and all of its direct and indirect subsidiaries (other than RCM), including those listed above, are referred to herein as the “Allianz Affiliates.” The Allianz Affiliates may be registered as investment advisers and/or broker-dealers with the SEC or other foreign regulatory authorities. Caywood-Scholl may act as investment adviser to one or more Allianz Affiliates on either a discretionary or non-discretionary basis, and may serve as a sub-adviser for accounts or clients for which one or more Allianz Affiliates serve as investment manager or investment adviser. Caywood-Scholl may receive proprietary research from (and provide proprietary research to) certain Allianz Affiliates. For example, in the areas of legal and compliance, risk management, human resources, finance, information technology and sales and marketing, employees may be shared between Caywood-Scholl and various Allianz Affiliates. Caywood-Scholl coordinates its activities with certain other Allianz investment management businesses. These businesses include Allianz Global Investors Kapitalanlagegesellschaft mbH, Pallas Investment Partners, L.P., RCM Capital Management LLC, RCM (UK) Ltd., RCM Japan Co. Ltd., RCM Asia Pacific Limited, and RCM Capital Management PTY Ltd. (collectively, the “Allianz Advisory Affiliates”). Aside from Pallas, each of the Allianz Advisory Affiliates is directly or indirectly a wholly-owned subsidiary of AAM.

To the extent permissible under all appropriate laws, including federal banking laws, Caywood-Scholl may, from time to time, execute brokerage transactions through, or have investment advisory relationships with, any of the Allianz Affiliates. Caywood-Scholl will not execute brokerage transactions through any of the Allianz Affiliates without the consent of the clients involved in such transactions. In addition, Caywood-Scholl and the Allianz Affiliates do not act as principal in connection with transactions of Caywood-Scholl clients. See Item 12 below.

Certain Allianz Affiliates are described

#### RCM Capital Management LLC (“RCM”)

RCM is registered as an investment adviser with the SEC and is wholly owned by US Holdings. RCM, which has been in operation since 1970, either directly or through its predecessors, is

actively engaged in providing investment management and investment advisory services to individual clients, institutions, and collective investment funds, including mutual funds. RCM may also provide investment advisory services to certain clients of Caywood-Scholl.

Caywood-Scholl is also related to the following entity:

[Allianz Funds Multi-Strategy Trust \("Allianz Trust"\)](#)

Caywood-Scholl is the portfolio manager of a certain series of the Allianz Funds Multi-Strategy Trust, an open-end management company. Allianz Global Investors Fund Management LLC ("AGIFM") serves as investment adviser and administrator to the Allianz Trust. Under the terms of an agreement with AGIFM dated March 31, 2008 and amended and restated on July 8, 2008, and later amended on October 3, 2011, Caywood-Scholl serves as portfolio manager to the Allianz RCM Short Duration High Income Fund, a diversified fund which invests primarily in debt securities issued by public and private companies.

## **ITEM 11. - CODE OF ETHICS, PARTICIPATION OR INTEREST IN CLIENT TRANSACTIONS AND PERSONAL TRADING**

### CODE OF ETHICS:

Caywood-Scholl has adopted a Code of Ethics ("Code") pursuant to Rule 204A under the Advisers Act. Caywood-Scholl's officers, employees, and associated persons (collectively, "Employees") are required to follow the Code, which sets out standards of conduct and helps Caywood-Scholl detect and prevent potential conflicts of interest. The Code covers personal securities transactions of all Employees and their family members (as defined in the Code), which includes most persons sharing the same household as the Employee. Although the Code permits employees to trade in securities for their own accounts, Employees are required to follow the Code, which contains preclearance procedures, reporting requirements, and other provisions that restrict trading by Employees. In some circumstances, Employees may trade in securities for their own accounts that are recommended to and/or purchased by our Clients. In these circumstances, there is a possibility that the Employee may benefit from market activity within a Client account.

Employee trading is monitored for compliance with the Code. Any Employee who violates the Code may be subject to remedial actions, including, but not limited to: profit disgorgement, censure, demotion, suspension, or dismissal. Employees are also required to promptly report any violation of the Code of which they become aware. The Code is available upon request. Employees are required to annually certify compliance with the Code.

Caywood-Scholl will provide clients and prospective clients with a copy of the Code upon request.

### PARTICIPATION OR INTEREST IN CLIENT TRANSACTIONS

Subject to client guidelines or restrictions, Caywood-Scholl may purchase securities on behalf of its clients from an Allianz Affiliate where the Allianz Affiliate is acting as underwriter, placement agent or broker. Such purchases will be subject to Caywood-Scholl's duty to obtain best execution as defined in Item 12.

Consistent with its duty to obtain best execution, Caywood-Scholl may from time to time effect securities transactions for its client accounts through a related person acting as broker or agent.

The Allianz Affiliates provide a variety of investment banking, commercial banking, brokerage, and other services to a broad range of clients, including issuers of securities that Caywood-Scholl may recommend for purchase or sale by clients. In the course of providing these services, the Allianz Affiliates may come into possession of material, non-public information. However, such material, non-public information ordinarily will not be disclosed to Caywood-Scholl or its employees. Moreover, the Allianz Affiliates have installed procedures intended to prevent the sharing of confidential information concerning issuers by its investment banking, commercial banking, brokerage, investment management, and other operations. Such confidential information, if obtained, will not be used as a factor in making investment decisions for the portfolios of Caywood-Scholl's clients. Caywood-Scholl believes that the nature and range of clients to whom the Allianz Affiliates render investment banking, commercial banking, brokerage, and other services is such that it would be inadvisable to exclude these companies from a client's portfolio solely on the basis of their relationship with the Allianz Affiliates. Accordingly, except to the extent prohibited by law, Caywood-Scholl will not, as a matter of policy, refrain from initiating purchases or sales of any security as to which the Allianz Affiliates provide investment banking, commercial banking, brokerage, or other services, or as to which the Allianz Affiliates possess material, non-public information. As a result, and subject to each client's investment objectives, guidelines, and restrictions, it is likely that client holdings will, from time to time, include the securities of issuers for whom the Allianz Affiliates provide investment banking, commercial banking, brokerage, or other services. Client portfolios also may include the securities of companies in which an Allianz Affiliate makes a market, or in which Caywood-Scholl, the Allianz Affiliates, or any of their employees have positions.

#### PERSONAL TRADING

Caywood-Scholl permits its employees to engage in personal securities transactions, and to purchase and sell securities that may be held or may be suitable for investment by client accounts. Personal securities transactions may raise potential conflicts of interest with the interests of Caywood-Scholl clients. Accordingly, Caywood-Scholl has adopted a Code of Ethics which is designed to mitigate conflicts of interest and the potential appearance of impropriety in an employee's personal actions. The Code of Ethics requires, among other things, advance approval of any purchases or sales of securities by Caywood-Scholl's employees, with certain exceptions. The Code of Ethics does not apply to transactions in securities issued by the U.S. Government, or certain foreign governments' bankers' acceptances, bank certificates of deposit, commercial paper.

In order to ensure compliance with the pre-trading authorization requirement, each Caywood-Scholl employee is required to instruct each broker-dealer with whom he or she maintains an account to send directly to Caywood-Scholl (or its designee) a duplicate copy of all transaction confirmations generated by that broker-dealer for that employee's account. These confirmations and other relevant records are then cross-checked against the pre-trading authorization forms submitted by that employee.

Caywood-Scholl's Code of Ethics restricts the purchase and sale by its personnel (and certain entities in which its personnel may have a beneficial interest) for their own accounts of securities which have been or are being considered for purchase for client accounts. Except under certain limited circumstances, personnel are not to engage in a transaction in the same security while an order for a client's account is pending or within a certain period of time before and after

execution of the transaction in that security on behalf of the client. The applicable time period will vary, depending on the employee's job responsibilities. The Board of Directors has the power to impose sanctions and to grant exceptions in appropriate circumstances.

Caywood-Scholl performs investment management and investment advisory services for various clients, many of whom may have differing investment objectives, guidelines, and restrictions. As a result, Caywood-Scholl may give advice and take action in the performance of its duties for a particular client that may differ from the advice given, or the timing or nature of action taken, with respect to other clients. Frequently, a particular security may be bought or sold for only one or only a small number of clients, or in different amounts and at different times for more than one but less than all clients.

Caywood-Scholl may, from time to time, buy or sell securities for its own investment account, and Caywood-Scholl's employees may do so, either individually or as a group (such as through an investment partnership). Likewise, the Allianz Affiliates may buy and sell securities for their own accounts, may underwrite securities, and may act as market maker with respect to certain securities. Caywood-Scholl does not prohibit any of its employees from purchasing or selling for their own accounts securities that may be recommended to or held by Caywood-Scholl's clients. Similarly, the Allianz Affiliates may purchase, hold, or sell securities that are recommended for purchase or sale in Caywood-Scholl client accounts. The Allianz Affiliates also have adopted procedures designed to mitigate conflicts of interest and the potential appearance of impropriety in employee personal trading. The nature and timing of actions taken by one or more of Caywood-Scholl's employees or by one or more of the Allianz Affiliates, either for their own accounts or for the accounts of clients, may differ from the nature and timing of actions taken by Caywood-Scholl for client accounts. Because, under the Code of Ethics, Caywood-Scholl employees cannot trade for their own accounts at the same time as Caywood-Scholl clients, Caywood-Scholl employees will most likely purchase and sell at prices that are different than Caywood-Scholl clients. The Allianz Affiliates and their employees are not subject to the Caywood-Scholl Code of Ethics, and therefore may be purchasing or selling a security at the same time that Caywood-Scholl is purchasing or selling that security on behalf of one or more clients.

Caywood-Scholl's Legal and Compliance Department monitors and enforces our Code of Ethics. See Item 13 below.

Because Caywood-Scholl manages more than one account, potential conflicts of interest may arise related to the amount of time individuals devote to managing particular accounts. Caywood-Scholl may also have an incentive to favor accounts in the allocation of investment opportunities or otherwise treat preferentially those accounts that pay us a performance-related fee, or a higher fee level or greater fees overall. Caywood-Scholl has adopted procedures for allocation of portfolio transactions and investment opportunities across multiple client accounts on a fair and equitable basis over time. See Item 6 above and Item 12 below.

Potential conflicts of interest may also arise in connection with an employee's knowledge and the timing of transactions, investment opportunities, broker selection, portfolio holdings and investments. Some employees who have access to the size and timing of transactions may have information concerning the market impact of transactions. Employees may be in a position to use this information to their possible advantage or to the possible detriment of our other client accounts. An investment opportunity may also be suitable for multiple accounts we manage, but not in sufficient quantities for all accounts to participate fully. Similarly, there may be limited opportunity to sell an investment held by multiple accounts. Caywood-Scholl manages these potential conflicts with employee transactions by requiring that any transaction be made in

compliance with our Code of Ethics, and potential conflicts between client accounts through our procedures for allocating portfolio transactions and investment opportunities discussed in Item 12 below.

## **ITEM 12. - BROKERAGE PRACTICES**

Most clients give Caywood-Scholl full discretionary authority over assets under management, subject to any limitations or prohibitions that may be imposed by each client in its investment objectives, guidelines, and restrictions, or in instructions otherwise provided to Caywood-Scholl by the client. For accounts over which Caywood-Scholl has full discretionary authority, Caywood-Scholl has the power to determine (without consultation with the client) which securities are bought and sold, when such purchases and sales are made, and the total amount of such purchases and sales. Except in those instances where a client wishes to retain discretion over broker selection and commission rate, Caywood-Scholl accepts full discretionary authority to determine the broker to be used and the commission paid, with the objective of attaining the best available price and most favorable execution ("best execution") for each transaction. The majority of trades are made on a net basis where the client buys securities directly from a dealer, or sells them directly to a dealer. This is the typical practice in the over-the-counter market for equity securities, and for most debt securities. In such transactions, there is no direct commission charged, but the dealer receives a "spread" which is the equivalent of a commission for engaging in the transaction.

From time to time, Caywood-Scholl may accept accounts for which it does not have full discretionary authority. For example, Caywood-Scholl may recommend purchases and sales of securities for such accounts, subject to the clients' approval, or Caywood-Scholl may provide only reporting and performance measurement services. In such cases, a suitable fee arrangement is agreed upon. (See Item 5) If only non-advisory services are provided, and if the account is related to other accounts, Caywood-Scholl may perform the services as an accommodation.

If Caywood-Scholl makes a recommendation that is accepted by a non-discretionary client, that client may choose to execute the transaction itself, without Caywood-Scholl's assistance. In that event, the non-discretionary client may seek to purchase or sell securities at the same time as discretionary clients, to the potential disadvantage of both. Alternatively, the client may request Caywood-Scholl as an accommodation to place orders for the purchase or sale of the securities recommended and Caywood-Scholl may either be given the right to determine the executing broker-dealer or the client may direct that such transactions be effected through specified broker-dealers. As a result, the timing of the non-discretionary client's transaction may differ from that of other Caywood-Scholl clients.

In addition, from time to time, Caywood-Scholl may accept private client accounts for which a broker-dealer serves as custodian. In such cases, the client may agree with the broker-dealer that some or all transactions for that account must be executed through that broker-dealer. In such circumstances, even though Caywood-Scholl has discretionary authority over the account, Caywood-Scholl's authority to select the broker-dealer through whom transactions will be executed may be limited. As a result, Caywood-Scholl may not be in a position to ensure best execution of transactions for that client.

In selecting a broker or dealer for each specific transaction, Caywood-Scholl uses its best judgment to choose the broker or dealer most capable of providing the services necessary to obtain the best execution of that transaction. In seeking the best execution of each transaction,

Caywood-Scholl evaluates a wide range of criteria, including any or all of the following: the broker's spread or commission rate, promptness, reliability and quality of executions, trading expertise, positioning and distribution capabilities, back office efficiency, ability to handle difficult trades, knowledge of other buyers and sellers, ability to provide Caywood-Scholl with market-related information, confidentiality, capital strength and financial stability, prior performance and responsiveness in serving Caywood-Scholl and its clients, and other factors affecting the overall benefit received by the client(s) in the transaction. When circumstances relating to a proposed transaction indicate that a particular broker or dealer is in a position to obtain the best execution, the order is placed with that broker or dealer. This may or may not be a broker or dealer that has provided investment information and research services to Caywood-Scholl.

Subject to the requirement of seeking best execution, Caywood-Scholl may, in circumstances in which two or more brokers or dealers are in a position to offer comparable price and execution, give preference to a broker or dealer that has provided investment information and research services to Caywood-Scholl. In so doing, Caywood-Scholl may effect securities transactions which cause a client to pay a spread in excess of the amount of spread another broker would have charged. In selecting such broker or dealer, Caywood-Scholl will make a good faith determination that the amount of spread is reasonable in relation to the value of the brokerage services and research and investment information received, viewed in terms of either the specific transaction or Caywood-Scholl's overall responsibility to the accounts for which it exercises investment discretion. Caywood-Scholl uses investment information and research services that it receives from broker-dealers to evaluate securities and to formulate investment recommendations for both discretionary and non-discretionary clients. Such information and services are used by Caywood-Scholl as part of its investment process to enhance portfolio return and to reduce trading costs, and are helpful to Caywood-Scholl in serving its clients. Among other things, Caywood-Scholl may receive research reports, oral advice, or data from the brokers or dealers regarding particular companies, industries, or general market or economic conditions. Such investment information and research services are used in reports prepared by RCM's Grassroots<sup>sm</sup> Research unit. Caywood-Scholl may, from time to time, utilize research produced by RCM's Grassroots<sup>sm</sup> Research.

The investment information and research services that Caywood-Scholl receives from brokers or dealers may be used by Caywood-Scholl to formulate recommendations for purchase or sale of securities. These investment information and research services received from brokers or dealers may be available to all of Caywood-Scholl's clients (including foreign clients) and is used by Caywood-Scholl in servicing all of its clients, and it is recognized that a particular account may be charged a spread paid to a broker or dealer who supplied research services not utilized by such account. In addition, non-discretionary clients for whom Caywood-Scholl does not place brokerage orders ordinarily will benefit from such investment information, even though such information was generated through spreads paid by other clients. Caywood-Scholl expects that each account will be benefited overall by such practice because each is receiving the benefit of research services and the execution of such transactions not otherwise available to it.

In many cases, portfolio transactions may be executed in an aggregated transaction as part of concurrent authorizations to purchase or sell the same security for numerous accounts served by Caywood-Scholl, some of which accounts may have similar investment objectives. Caywood-Scholl believes that aggregation of transactions may enable it, on average and over time, to obtain enhanced execution and lower spreads (although there is no certainty that such objectives will be achieved).

Although executing portfolio transactions in an aggregated transaction potentially could be either advantageous or disadvantageous to any one or more particular accounts, aggregated

transactions will be effected only when Caywood-Scholl believes that to do so will be in the best interest of the affected accounts, and Caywood-Scholl is not obligated to aggregate orders into larger transactions. These orders generally will be averaged as to price. When such aggregated or coordinated transactions occur, the objective will be to allocate the executions in a manner which is deemed fair and equitable to each of the accounts involved over time. In making such allocation decisions, Caywood-Scholl adheres to all applicable legal and regulatory requirements and will use their business judgment and will consider, among other things, any or all of the following: each client's investment objectives, guidelines, and restrictions, the size of each client's order, the amount of investment funds available in each client's account, the amount already committed by each client to that or similar investments, and the size and structure of each client's portfolio. Although Caywood-Scholl will use its best efforts to be fair and equitable to all clients, there can be no assurance that any particular investment will be proportionately allocated among clients according to any particular or predetermined standard or criteria.

In accordance with its Code of Ethics, Caywood-Scholl will not include orders on behalf of the Caywood-Scholl Profit Sharing Trust or any investment entity composed of Caywood-Scholl employees in any aggregated transaction that includes orders placed on behalf of Caywood-Scholl client accounts.

Because each client has its own investment guidelines, objectives, and restrictions, a particular security may be bought for one or more clients at a time when one or more clients are selling the same security. In such cases, when Caywood-Scholl believes it is appropriate and in accordance with applicable law and regulations, Caywood-Scholl may effect third party agency cross transactions between two or more accounts. Caywood-Scholl believes that such transactions can benefit both accounts by effecting a transfer of securities from one account to another at a greatly reduced cost.

Caywood-Scholl, from time-to-time and when it is in the best interest of its clients, may execute agency cross or in-house cross transactions between accounts. An agency cross transaction occurs when Caywood-Scholl through a broker sells a security owned by one client to another client. An in-house cross transactions occurs when Caywood-Scholl sells the security of one client to another client without using a broker. In an in-house cross transaction the price at which the cross is executed is determined by obtaining the bid and ask prices from one or more brokers.

Caywood-Scholl may purchases securities for client accounts that are not listed on a national securities exchange but that are traded in the over-the-counter market, and may also purchase listed securities in the third market (over-the-counter trades of exchange-listed securities) or fourth market (direct trades of securities between institutional investors without intermediation of a broker-dealer). Where transactions are executed in the over-the-counter market or third market, Caywood-Scholl will seek to deal with the primary market-makers; but when necessary in order to obtain the best price and execution, it will utilize the services of others. In all cases, Caywood-Scholl will attempt to secure best execution.

Caywood-Scholl does not enter agreements with, or make commitments to, broker-dealers that would bind Caywood-Scholl to compensate broker-dealers directly or indirectly for client referrals. However, except in the case of ERISA accounts and registered investment companies, when one or more broker-dealers is considered by Caywood-Scholl to be capable of providing best execution with respect to a particular portfolio transaction, Caywood-Scholl may select a broker-dealer in recognition of the broker-dealer's past referral of the particular client for whom the transaction is being executed, or of other clients, or in recognition of

possible future referrals from the broker-dealer. This may create a conflict of interest. In doing so, unless otherwise specifically disclosed to the client, Caywood-Scholl will not pay higher commissions, concessions, or mark-ups than would otherwise be obtainable from broker-dealers that do not provide client referrals to Caywood-Scholl.

The brokerage commissions used to acquire research or brokerage services are known as “soft dollars.” Broker-dealers typically provide a bundle of services that include both research or brokerage services, along with execution of particular transactions. The services can be either proprietary (meaning the broker-dealer both creates and provides them) or third-party (meaning a third party creates them, but a broker-dealer provides them to us). Proprietary services include tangible products as well as access to analysts and traders. Special execution services or proprietary services rarely have a fixed dollar value. Caywood-Scholl may use soft dollars to acquire both proprietary and third-party services.

Investment information and research services also may include, among other things, information concerning pertinent federal and state legislative and regulatory developments and other developments that could affect the value of companies in which we have invested or may consider investing; attendance at meetings with corporate management personnel, industry experts, economists, government personnel and other financial analysts and journalists; consultation with scientific and technical experts concerning the viability and market potential of an issuer’s products and services; subscription to publications that provide investment-related information; accounting and tax law interpretations; economic advice; execution or research measurement services; market-related and survey data concerning the products and services of an issuer and its competitors or concerning a particular industry that are used in reports prepared by RCM’s Grassroots<sup>sm</sup> Research group to enhance our ability to analyze an issuer’s financial condition and prospects; information from doctors concerning medical, technological and economic developments in medicine, health care, and related areas; and other services provided by recognized experts on investment matters of particular interest to us.

Should a trading error occur in a client account that was caused by Caywood-Scholl, Caywood-Scholl will seek to place the client in the same position that it would have been in had the error not occurred. In resolving any possible trading error, Caywood-Scholl’s fundamental policy is that our clients’ interests always come first. Errors may occur either in the investment decision making process (e.g., a decision may be to purchase a security or an amount of a security that violates the client’s investment restrictions), in the trading process (e.g., a buy order may be executed as a sell, or a security other than that which the portfolio manager ordered may be purchased or sold) or in the processing of a trade (e.g., in settling or booking a trade).

The SEC prohibits the use of soft dollars to remedy trade errors (US Department of Labor, October 25, 1988). As a result, Caywood-Scholl will not use soft dollars to correct a trading error.

### **ITEM 13. - REVIEW OF ACCOUNTS**

Portfolio managers conduct the reviews in the client’s office and is done annually or as often as needed. Caywood-Scholl’s portfolio managers are available to discuss portfolio structure, investment themes, market outlook, and individual credit analysis. We also offer our clients a monthly update call with the portfolio management team to keep them apprised of the portfolio’s current strategy and the market outlook. Additional reviews may be done at the client’s request.



Caywood-Scholl issues comprehensive monthly reports which include appraisals, transaction summaries and performance data. Other reports and frequencies are also available, at the client's request.

The Legal and Compliance Department is responsible for the monitoring and policing of personal dealing including the misuse of insider information for the benefit of individual employees or to the detriment of individual funds/clients. It monitors employees' transactions according to internal rules. In addition, it takes measures to prevent money-laundering. The Legal and Compliance Department is also responsible for monitoring adherence to client guidelines and contractual or regulatory constraints. A portfolio administration system monitors client portfolios.

#### Reports to Clients

Caywood-Scholl issues comprehensive monthly reports which include appraisals, transaction summaries and performance data. Other reports and frequencies are also available, at the client's request.

### **ITEM 14. - CLIENT REFERRALS AND OTHER COMPENSATION**

Caywood and certain affiliates of Caywood-Scholl may have arrangements where Caywood and such affiliates receive some economic benefit from a non-client, such as a broker-dealer, in connection with giving advice to clients. (See Item 12 above.)

Caywood-Scholl may, from time to time, compensate solicitors with respect to solicitation activities in accordance with applicable laws and regulations. Consequently, persons introducing new client accounts to Caywood-Scholl may receive a portion of the management fee generated by the account. The portion of the fee paid and the length of time for which such fee is paid will vary on a case by case basis. Such compensation arrangements will be disclosed to Caywood-Scholl clients at the time of solicitation or referral as required by applicable law and regulations.

### **ITEM 15. - CUSTODY**

Caywood-Scholl does not take physical possession of client funds or securities. Clients who request or permit the direct deduction of our fees from their accounts should receive statements, at least quarterly, directly from the broker-dealer, bank or other qualified custodian that holds or maintains the client's investment assets. In these cases, Caywood-Scholl urges clients to carefully review those statements, where applicable, and compare those official custodial records to the account statements Caywood-Scholl may send to clients.

### **ITEM 16. - INVESTMENT DISCRETION**

Most clients give us full discretionary authority over assets under management. Our discretion may be subject to any limitations or prohibitions imposed by a client in its investment objectives, guidelines, and restrictions, or in instructions otherwise provided to us by the client or, for subadvisory accounts, by the client's principal advisor. Before we exercise discretionary authority or invest for an account, clients generally enter into a written client agreement with us. See also Item 4 above.

## ITEM 17. - VOTING CLIENT SECURITIES

Caywood-Scholl Capital Management LLC (“Caywood-Scholl”) typically votes proxies as part of its discretionary authority to manage accounts, unless our client has explicitly reserved the authority for itself. In cases where we have voting authority, we intend to vote such proxies in a manner consistent with the best interest of our clients. Proxy voting proposals are voted with regard to enhancing shareholder wealth and voting power. The voting of all proxies has been delegated to RCM.

Caywood-Scholl has adopted RCM’s written Global Corporate Governance Guidelines and a Proxy Voting Policy (the “Proxy Guidelines”) that are reasonably designed to ensure that we are voting in the best interest of our clients. RCM has retained the services of Institutional Shareholder Services, Inc. (“ISS”), a specialist voting agency, which is responsible for interpreting, implementing and casting votes in line with the Proxy Guidelines. Caywood-Scholl has a Proxy Committee, consisting of investment, and compliance personnel, that is responsible for implementing the Proxy Guidelines and for addressing voting issues that may arise.. The Proxy Guidelines summarize our position on various issues, including issues of corporate governance and corporate actions, and give general indication as to how we will vote shares on such issues. The Proxy Guidelines do not include all potential voting issues and for that reason, there may be instances when we may not vote proxies in strict adherence to the Proxy Guidelines. The Proxy Guidelines also apply to any voting rights and/or consent rights of Caywood-Scholl, on behalf of its clients, with respect to debt securities, including but not limited to, plans of reorganization. To the extent that the Proxy Guidelines do not cover potential voting issues or a case arises of a material conflict between our interest and those of a client with respect to proxy voting, our Proxy Committee will convene to discuss these instances to make a final decision. In evaluating issues, the Proxy Committee may consider information from many sources, including our portfolio management team, our analyst responsible for monitoring the stock of the company at issue, management of a company presenting a proposal, shareholder groups, and independent proxy research services. In situations where the Proxy Guidelines do not give clear guidance on an issue, an analyst or portfolio manager and/or Caywood-Scholl’s Proxy Committee will review the issue. In the event that either an analyst or portfolio manager wishes to override the Proxy Guidelines, the proposal will be presented to the Proxy Committee for a final decision. Deviation from the Proxy Guidelines will be documented and maintained in accordance with Rule 204-2 under the Investment Advisers Act of 1940.

In accordance with the Proxy Guidelines, Caywood-Scholl may review various criteria associated with voting proxies and evaluate the expected benefit to our clients when making an overall determination on how or whether to vote a proxy. In addition, Caywood-Scholl may refrain from voting under certain circumstances. These circumstances may include, but are not limited to: 1) proxy statements and ballots being written in a foreign language, 2) untimely notice of a shareholder meeting, 3) requirements to vote proxies in person, 4) restrictions on foreigner’s ability to exercise votes, 5) requirements to provide local agents with power of attorney to facilitate the voting instructions. Such proxies are voted on a best-efforts basis.

Proxy voting in certain countries requires “share blocking.” To vote proxies in such countries, shareholders must deposit their shares shortly before the date of the meeting with a designated depositary and the shares are then restricted from being sold until the meeting has taken place and the shares are returned to the shareholders’ custodian banks. Absent compelling reasons, Caywood-Scholl believes the benefit to its clients of exercising voting rights does not outweigh the effects of not being able to sell the shares. Therefore, if share blocking is required, Caywood-Scholl generally abstains from voting.

Caywood-Scholl will not be able to vote securities on loan under securities lending arrangements into which Caywood-Scholl's clients have entered. However, under rare circumstances, for voting issues that may have a significant impact on the investment, and if the client holds a sufficient number of shares to have a material impact on the vote, we may request that clients recall securities that are on loan if we determine that the benefit of voting outweighs the costs and lost revenue to the client and the administrative burden of retrieving the securities.

#### Conflicts of Interest

Caywood-Scholl may have conflicts of interest that can affect how we vote our clients' proxies. For example, Caywood-Scholl or an affiliate may manage a pension plan whose management is sponsoring a proxy proposal. In the example, failure to vote in favor of management may harm our or our affiliate's relationship with the company. Given the value of the relationship to us or our affiliate a material conflict of interest may exist in this example even in the absence of efforts by management to persuade us how to vote. The Proxy Guidelines are designed to prevent material conflicts of interest from affecting the manner in which we vote our clients' proxies. In order to ensure that all material conflicts of interest are addressed appropriately while carrying out our obligation to vote proxies, the Proxy Committee is responsible for addressing how Caywood-Scholl resolves such material conflicts of interest with our clients.

The above only summarizes our Guidelines and Procedures. To obtain our proxy voting policies, as well as information on how securities held in your account were voted, by submitting a written request to Caywood-Scholl.

### **ITEM 18. - FINANCIAL INFORMATION**

Caywood-Scholl does not require or solicit prepayment of any fees in advance. Caywood-Scholl does not have financial commitment that may impair its ability to meet contractual and fiduciary commitments to clients, and Caywood-Scholl has not been the subject of a bankruptcy petition in the past.

### **ITEM 19. - PRIVACY NOTICE**

#### **Caywood-Scholl Capital Management LLC**

#### **Privacy Notice**

##### **To Our Customers:**

We value our customers and appreciate the trust you have placed in us. We understand that as our customers, you provide us with certain non-public personal information in the course of doing business with us and entrust us to protect its privacy. "Non-public personal information" is generally identifiable financial information about you. For example, it includes information regarding your social security number, account balance, bank account information and account transaction history. This notice describes how we handle your personal information and the important steps we take to protect your privacy. We have sent this notice to comply with the privacy regulations of the Securities and Exchange Commission.

##### **Information We Collect About You:**

To provide you with the highest quality of service, we collect and maintain certain non-public personal information about you. This information includes information we receive from you to open an account and provide you with investment advice, including information you provide on

applications or other forms (such information may include your name, address, telephone number, taxpayer identification number and certain financial information); information about your transactions; and information we generate to service your account (such as trade tickets and account statements).

**Our Privacy Policies and Practices:**

We do not disclose non-public personal information to non-affiliated third parties, except for our everyday business purposes, such as processing transactions for your account, or as allowed by applicable law or regulation. As is common in the industry, non-affiliated companies may from time to time be used to provide certain services, such as settlement and accounting, performance measurement, transfer agency, custody, brokerage or administration. These companies may have access to your non-public personal information, but are permitted to use the information solely to provide the specific service or as otherwise permitted by law. We may also provide your non-public personal information to your brokerage or financial advisory firm or consultant.

We do reserve the right to disclose or report personal information to non-affiliated third parties in limited circumstances where we believe in good faith that disclosure is required under law, to cooperate with regulators or law enforcement authorities, to protect our rights or property, or upon reasonable request by any mutual fund in which you have chosen to invest. In addition, we may disclose information about you or your accounts to a non-affiliated third party at your request or if you consent in writing to the disclosure.

We may share your information with our affiliates in connection with their everyday business purposes, such as servicing your account, but our affiliates may not use this information to market products or services to you except in conformance with applicable laws or regulations. The information we share includes information about our experiences and transactions with you and may include, for example, your participation in our investment funds, your ownership of certain types of accounts (such as IRAs), or other data about your transactions or accounts. Our affiliates, in turn, are not permitted to share client information with non-affiliated entities, except as required or permitted by law.

Access to your non-public personal information is restricted to those persons who need access to that information to provide products or services to you. We maintain strict physical, electronic and procedural safeguards to protect unauthorized use of this information. We take seriously our commitment to protect your privacy and adhere to the policies and practices outlined above for both current and former customers.